Vijayalakshmi Agro Food Industries

July 01, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	34.00 (Enhanced from 32.00)	CARE BB-; Stable	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The reaffirmation of ratings assigned to the long-term bank facilities of Vijayalakshmi Agro Food Industries (VAFI) factor in Significant improvement in scale of operations albeit stable profitability margins in a highly fragmented and competitive industry. CARE Ratings takes note of merger of Vijayalakshmi Drier Industries (VDI) with VAFI leading to improvement in scale of operations. However, sustenance of its improved scale of operations will be key to its credit profile. Post merger, there has been increase in debt levels and high utilisation of working capital limits amidst growing sales volume. This has led to deterioration in capital structure and weak debt coverage indicators as well as firm reporting negative cash flow from operations in FY24.

The rating favourably factors in experienced promoters in rice milling business and locational advantage for VAFI with presence in cluster and easy availability of paddy.

These rating strengths constrained by working capital intensive nature of operations due to high dependence on agricultural activities, seasonal nature of availability of paddy & margins susceptible to raw material price fluctuations, regulations by government and partnership nature of constitution with inherent risk of capital withdrawal.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Sustained improvement in revenue and profitability resulting in firm reporting positive cash flow from operations.
- TOL/TNW of less than 2.00x.

Negative factors

- Decline in TOI below Rs. 70 Cr and decline in PBILDT margin below 2.5% on a on a sustained basis
- Any debt funded capex resulting in Overall gearing > 4.0x and ICR <1.20x

Analytical approach: Standalone

Outlook: Stable

CARE Ratings believes that VAFI's business risk profile will continue to remain stable aided by sustenance of improved scale of operations and stable profitability margins.

Detailed description of the key rating drivers:

Key weaknesses

Deterioration in capital structure and weak debt coverage indicators

The capital structure of the firm has deteriorated marked by overall gearing of the firm at 3.03x as on March 31,2024 (UA) as compared to 2.32x as on March 31,2023. There was increase in the overall debt level in FY23 owing to business merger of both the entities which was partially offset by increase in tangible net worth of the merged entity. However, in FY24, there has been substantial increase in working capital debt amidst growing sales resulting into moderation in capital structure. Further the company has undertaken a capex for related business expansion with a total cost of Rs.3.60 Cr which is funded through term loan of Rs.2.60 Cr and rest though partner's contribution/internal accruals.

The debt coverage indicators like interest coverage ratio stood at 1.50x for FY24 (Prov.) as compared to 1.58X in FY23 (A). The TOL/TNW of the firm deteriorated to 4.08x in FY24 (Prov.) as compared to 2.80x in FY23 (A) due to increase in working capital utilisation backed by growing sales volume.

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Working capital intensive nature of operations due to high dependence on agricultural activities
Due to the inherent agro climatic risk, the millers have to stock enough paddy by the end of each season as the price and quality of paddy is better during the harvesting season. During this time, the working capital requirements of the rice millers are generally on the higher side. Majority funds of the firm are blocked in inventory. The firm avails credit period of 20-25 days from its suppliers and extends credit up to 30-40 days to its customers. The firm maintains the average inventory level of 80-100 days however the same has been high at 120 days and more in past due to lower availability of desired raw materials. Further, due to merger of both the entities, there was increase in absolute levels of inventory, receivables and creditors which led to elongation in operating cycle to 133 days during FY23 which has been normalised to 94 days in FY24. Firm's average utilization of working capital stood at 89% during last 12 months ended May 31,2024

Seasonal nature of availability of paddy and margins susceptible to raw material price fluctuations and regulations by governments
Paddy in India is harvested mainly at the end of two major agricultural seasons Kharif (June to September) and Rabi (November to April). The major procurement of Paddy happens during the months of October to January and April to July. The firm's raw material being paddy, for proper harvest and availability of paddy, the weather conditions should be adequate. Adverse weather conditions directly affect the supply and availability of the paddy and raw material price fluctuations. The central Government of India (GOI), every year decides a minimum support price of paddy which limits the bargaining power of rice millers over the farmers. The sale of rice in the open market is also regulated by the government through levy quota and fixed prices. Due to the above said regulations along with the intense competition, the bargaining power of the rice millers against the suppliers of paddy and the customers is limited.

Partnership nature of constitution with inherent risk of capital withdrawal
VAFI is constituted as a Partnership firm wherein it is exposed to frequent withdrawal of partner's capital and resultant erosion of the net worth resulting in lower capital base despite the firm being able to generate sufficient profits in the past. However, during the review period the promoters have infused a capital of Rs. 1.56 Cr in F24 (Prov).

Highly fragmented and competitive business segment due to presence of numerous players
The firm is engaged into the fragmented business segment and competitive industry. The market consists of several small to medium-sized firms that compete with each other along with several large enterprises. There are several small sized firms in and around Koppal area which compete with VAFI.

Key strengths

Significant improvement in scale of operations albeit stable profitability margins
The total operating income of the firm has more than doubled to Rs. 140.60 Cr in FY24 (Prov.) when compared to Rs. 65.82 Cr in FY23 (A). The growth in the revenue was on account of increase in volume of sales backed by contribution from its group company VDI post-merger w.e.f March 18, 2023. This apart the revenue growth is partially backed by healthy demands from the customers in the market. The firm majorly sells in the states of Karnataka, and nearby states of Tamil Nadu and Andhra Pradesh. The PBILDT margins continues to be stable at 3.05% in FY24 (Prov.) when compared to 2.98% in FY23 (A). The continued thin PBILDT margin is however, on account of high cost of raw materials and traded goods as well as limited value additive nature of its business.

Experienced promoters in rice milling business
Vijayalakshmi Agro Food Industries (VAFI) was established in 2008 as a partnership firm and promoted by Mr. CH Nageshwara Rao, Mr. CH Radha Krishna, Mr. Jasti Ram Prasad and Mrs. K Geetha Vani. Mr. CH Nageshwara Rao and Mr. CH Radha Krishna are having around two decades of experience in rice milling business. Through their experience in the rice milling business, they have established healthy relationship with key suppliers, customers, local farmers, dealers and also with the brokers facilitating the rice business within the state.

Locational advantage with presence in cluster and easy availability of paddy
The rice milling unit of VAFI is located at Koppal district which is one of the highest rice producing districts in Karnataka. The manufacturing unit is located near the rice producing region, which ensures easy raw material access and smooth supply of raw materials at competitive prices and lower logistic expenditure.

Liquidity: Adequate

The liquidity profile of the firm remains adequate marked by scheduled repayment obligations of Rs. 1.08 Cr against satisfactory cash accruals of Rs 2.56 Cr projected for FY25. The firm has enhanced its working capital limits in view of growing sales volume post-merger of group company VDI. The overall working capital utilization stood high to the extent of 89% during last 12 months ending May 31, 2024. The firm has modest cash and bank balance of Rs. 1.07 crore as on March 31,2024 (Prov). Current Ratio has been maintained above unity by the firm historically.

Applicable criteria

Definition of Default
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Manufacturing Companies
Financial Ratios – Non financial Sector

About the company and industry

Industry classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Fast Moving Consumer Goods	Fast Moving Consumer Goods	Agricultural Food & other Products	Other Agricultural Products

Vijayalakshmi Agro Food Industries (VAFI) was established in 2008 as a partnership firm and promoted by Mr. CH Nageshwara Rao, Mr. CH Radha Krishna, Mr. Jasti Ram Prasad and Mrs. K Geetha Vani. VAFI is engaged in milling and processing of rice. Apart from rice processing, the firm is also engaged in selling by-products such as broken rice, husk and bran. As on March 31,2024 the firm has an installed capacity of 12 tons per hour.

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (UA)
Total operating income	65.82	140.60
PBILDT	1.96	4.29
PAT	0.47	0.74
Overall gearing (times)	2.32	3.03
Interest coverage (times)	1.58	1.50

A: Audited UA: Unaudited; Note: 'the above results are latest financial results available'

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	31.00	CARE BB-; Stable
Fund-based - LT-Proposed fund based limits		-	-	-	0.27	CARE BB-; Stable
Fund-based - LT-Term Loan		-	-	31/08/2025	0.13	CARE BB-; Stable
Fund-based - LT-Term Loan		-	-	30/04/2027	2.60	CARE BB-; Stable

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2024-2025	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022
1	Fund-based - LT-Cash Credit	LT	31.00	CARE BB-; Stable	-	1)CARE BB-; Stable (12-Jun-23)	1)CARE B+; Stable; ISSUER NOT COOPERATING* (16-Mar-23)	1)CARE BB-; Stable (04-Feb-22)
2	Fund-based - LT-Proposed fund based limits	LT	0.27	CARE BB-; Stable	-	1)CARE BB-; Stable (12-Jun-23)	1)CARE B+; Stable; ISSUER NOT COOPERATING* (16-Mar-23)	1)CARE BB-; Stable (04-Feb-22)
3	Fund-based - LT-Term Loan	LT	0.13	CARE BB-; Stable	-	1)CARE BB-; Stable (12-Jun-23)	1)CARE B+; Stable; ISSUER NOT COOPERATING* (16-Mar-23)	1)CARE BB-; Stable (04-Feb-22)
4	Fund-based - LT-Term Loan	LT	2.60	CARE BB-; Stable	-	1)CARE BB-; Stable (12-Jun-23)	1)CARE B+; Stable; ISSUER NOT COOPERATING* (16-Mar-23)	1)CARE BB-; Stable (04-Feb-22)

*Issuer did not cooperate; based on best available information.

LT: Long term.

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities: Not applicable

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Cash Credit	Simple
2	Fund-based - LT-Proposed fund based limits	Simple
3	Fund-based - LT-Term Loan	Simple

Annexure-5: Lender details

To view the lender wise details of bank facilities please click here

Note on the complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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About us:

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