

Sri Mathangi Matha Agros Private Limited (Revised)

August 07, 2024

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long-term bank facilities	11.43 (Enhanced from 10.23)	CARE BB-; Stable	Reaffirmed
short-term bank facilities	6.00 (Reduced from 7.20)	CARE A4	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

Reaffirmation in ratings to bank facilities of Sri Mathangi Matha Agros Private Limited (SMMA) continues to be constrained by a short track record and small scale of operations, moderate capital structure and coverage indicators, business operations being dependent on vagaries of nature, high-level of government regulation, and fragmented nature of business.

However, ratings derive strength from experienced promoters, presence in the rice belt of Andhra Pradesh, off-take agreement with the government in place, satisfactory profitability margins, and stable demand outlook.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Significantly improving total operating income (TOI) while maintaining satisfactory profit before interest, lease rentals, depreciation, and taxation (PBILD) margin on a sustained basis.
- Improving gearing below 1x.

Negative factors

- Significantly declining TOI and profits, going forward.
- Working capital cycle stretching beyond 90 days impacting the company's liquidity position.

Analytical approach: Standalone

Outlook: Stable

CARE Ratings Limited (CARE Ratings) believes that the entity will continue to benefit from the promoters' extensive experience in the industry and the agreement with the government in power.

Detailed description of key rating drivers:

Key weaknesses

Short track record and small scale of operations

The company started its commercial operations in February 2021 and FY22 was its first full year of operations. Therefore, the company's scale of operations is small. However, SMMA has achieved TOI of ₹11.81 crore in FY24 as against ₹11.55 crore in FY23, a jump of 22% y-o-y. The company's net worth base is also modest at ₹7.71 crore as on March 31, 2024, which includes subordinated unsecured loans of ₹4.10 crore.

Moderate capital structure and coverage indicators

The company's capital structure remained moderate marked by an overall gearing ratio of 1.44x as on March 31, 2024, as against 1.87x as on March 31, 2023. The company's gearing improved with an equity infusion of ₹1.90 crore leading to a higher net worth of ₹7.71 crore. The company's coverage indicators remained moderate marked by total debt to gross cash accruals (TD/GCA) at 5.82x as on March 31, 2024, as against 7.65x as on March 31, 2023. The improvement in the ratio is due to the timely repayments of debt obligations. The PBILD interest coverage ratio marginally improved and remained satisfactory at 2.82x in FY24 (PY: 2.50x).

Monsoon-dependent operations and high level of government regulation

SMMA's operations are dependent on agro-climatic conditions and may get adversely impacted in case of weak monsoons or poor crop quality. The rice industry is highly regulated by the government as it is seen as an important sector that could affect the food security of the country.

Fragmented nature of the industry

The rice milling business requires a limited quantum of investment in machinery, though has high working capital needs. Rice milling is not technology-intensive, and as a consequence, the industry is highly fragmented with a large number of players

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

operating in the organised and unorganised segments. The high level of competition has resulted in limited bargaining power, as a consequence of which rice mills are operating at low to moderate profitability margins.

Key strengths

Experienced promoters in the rice industry

SMMA was promoted by M Seshubabu (MD) and his family and other directors. M Seshubabu has experience of around eight years in the rice industry. The promoters are also partners in Vishnu Priya Modern rice mill. Due to their long-term presence in the market, the partners have established relations with their customers and suppliers.

Presence in major rice belt of Andhra Pradesh

SMMA's rice milling unit is in the West Godavari district, a favourable location for producing rice in Andhra Pradesh. The manufacturing unit is near the rice-producing region, ensuring easy raw material access and smooth supply of raw materials at competitive prices and lower logistic expenditure.

Agreement in place with the government for five years

The company has an agreement with the government for five years, which reflects an assured off-take. The raw material is supplied by the government, hence the company can mitigate the price fluctuation risk. In the milling process, the by-products such as bran, husk, and broken grains among others will be given to the millers for sale.

Satisfactory profitability margins in the review period

The company's profitability margins remained satisfactory in line with FY23 in FY24, marked by the PBILDT margin remaining at 22.90% as against the PBILDT margin of 22.36% in FY23. The company derives most of its revenue from the sale of by-products and only a part of its revenue comes from the processing costs that the company charges from the Government. This is a similar case with most rice mills. Although the company was lossmaking in FY21, the entity was able to quickly turn into a profitable company in FY22 with a net profit of ₹0.25 crore at a profit after tax (PAT) margin of 3.14% margin in FY22. In FY23 and FY24, the company reported a net profit of ₹0.62 crore and 0.97 crore at a PAT margin of 5.39% and 8.18%.

Liquidity: Stretched

SMMA's liquidity is stretched marked by negligible GCA as against the repayment obligations. The company's GCA in FY24 stood at ₹1.90 crore as against GCA of ₹1.63 crore in FY23. The average working capital bank borrowings for the last 12 months ending March 2024 stood at 86.08%. The company has positive cash flow from operating activities of ₹2.38 crore. The company's operating cycle deteriorated to 153 days in FY24 from 89 days in FY23 due to higher inventory days of 50 days in FY24 (PY: 31) and collection period also deteriorating to 122 days in FY24 (PY: 90 days). The company receives the job work charges from the state government within one-month post order is fulfilled. In FY24, the creditors were paid within 19 days.

Assumptions/Covenants: Not applicable

Environment, social, and governance (ESG) risks: Not applicable

Applicable criteria

[Definition of Default](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Rating Watch](#)

[Manufacturing Companies](#)

[Financial Ratios – Non financial Sector](#)

[Short Term Instruments](#)

About the company and industry

Industry classification

Macro-economic Indicator	Sector	Industry	Basic Industry
Fast moving consumer goods	Fast moving consumer goods	Food products	Other food products

SMMA was incorporated on June 14, 2016, and promoted by M Seshubabu. The facility is at West Godavari, Andhra Pradesh, with an installed capacity of 16 tons per hour (TPH). SMMA is engaged in milling raw rice, selling its by-products, and custom milling. The entity procures raw paddy from local farmers for its milling and custom milling raw material provided by the Civil Supplies department (AP State Govt.).

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	March 31, 2024 (UA)
Total operating income	7.79	11.55	11.81
PBILDT	1.99	2.58	2.70
PAT	0.25	0.62	0.97
Overall gearing (times)	1.93	1.87	1.44
Interest coverage (times)	2.19	2.50	2.82

A: Audited UA: Unaudited; Note: these are latest available financial results

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not Applicable

Rating history for last three years: Annexure-2

Covenants of rated instrument / facility: Annexure-3

Complexity level of instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash credit		-	-	-	3.92	CARE BB-; Stable
Fund-based - LT-Term loan		-	-	March 31, 2028	7.51	CARE BB-; Stable
Non-fund-based - ST-Bank guarantee		-	-	-	6.00	CARE A4

Annexure-2: Rating history for 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-Term loan	LT	7.51	CARE BB-; Stable	-	1)CARE BB-; Stable (05-Jul-23)	1)CARE BB-; Stable (04-Jul-22)	-
2	Fund-based - LT-Cash credit	LT	3.92	CARE BB-; Stable	-	1)CARE BB-; Stable (05-Jul-23)	1)CARE BB-; Stable (04-Jul-22)	-
3	Non-fund-based - ST-Bank guarantee	ST	6.00	CARE A4	-	1)CARE A4 (05-Jul-23)	1)CARE A4 (04-Jul-22)	-

LT: Long term; ST: Short term

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

Annexure-4: Complexity level of instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Cash credit	Simple
2	Fund-based - LT-Term loan	Simple
3	Non-fund-based - ST-Bank guarantee	Simple

Annexure-5: Lender details

To view lender-wise details of bank facilities please [click here](#)

Annexure-6: List of entities consolidated: Not applicable

Note on complexity levels of 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 clarifications.

Contact us

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About us:

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