Sri Lakshmi Venkatadri Agro Food Industries

July 13, 2020

Rating

Facilities	Amount (Rs. crore)	Ratings[1]	Rating Action
Long -term Bank Facilities	6.80	**CARE BB-; Stable (Double B Minus; Outlook: Stable)**	**Assigned**
Total Facilities	**6.80 (Rupees Six Crore and Eighty Lakh Only)**		

Details of instruments/facilities in Annexure

Detailed Rationale & Key Rating Drivers

The rating assigned to the bank facilities of Sri Lakshmi Venkatadri Agro Food Industries (SLVAFI) is tempered by modest scale of operations albeit to y-o-y growth, financial risk profile marked by the thin profitability margins, leveraged capital structure and weak debt coverage indicators, seasonal nature of availability of paddy resulting in working capital intensive nature of operations and constitution of the entity as partnership firm.

The ratings, however, derives strength from established track record and experienced promoters, location advantage with presence in cluster and easy availability of raw material and healthy outlook demand for rice.

Rating Sensitivities

Positive Factors

- Increase in scale of operations i.e., total operating income (TOI) to more than Rs. 50.00 crore on sustain basis
- Improvement in overall gearing ratio less than 2.00x on sustained basis

Negative Factors

- Any significant increase in debt levels results in further deterioration in overall gearing beyond 3.00x
- Any deviation in total operating income will result in decline PBILDT margin beyond 2% on sustained basis

Detailed description of the key rating drivers

Key Rating Weaknesses

Modest scale of operations albeit to y-o-y growth

The scale of operations marked by the total operating income has grown at CAGR of 6.6% during FY18-FY20 due to increase in orders from customers and coupled with stable market demand. The total operating income has grown from Rs. 35.13 crore in FY18 to Rs. 42.55 crore in FY20 (Prov.) and the net worth base of the firm stood low at 3.44 crore as compared peers in the industry.

Financial risk profile marked by the thin profitability margins, leveraged capital structure and weak debt coverage indicators

The profitability margins marked by the PBILDT margin has been fluctuating in the range of 3.91% to 4.18% during FY18-FY20 due to volatile in raw material prices (paddy) on back of seasonal based availability and coupled with competitive and highly fragmented nature of business activities, the firm not able to pass-on the increasing overheads cost. However, the PBILDT margin stood satisfactory at 4.13% in FY20 (prov.). In line with PBILDT, the PAT margin stood thin and fluctuating in the range of 0.42% to 0.62% during FY18-FY20 due to increase in finance and deprecation cost on back on addition of fixed assets through debt infusion.

The capital structure of the firm marked by the overall gearing ratio has been improved and stood leveraged at 2.60x as on March 31, 2020 (prov.) as compared to 3.64x as on March 31, 2019 and 3.29x as on march 31, 2018 due to repayment of term loan coupled with y-o-y accretion of profits into the business. The debt profile of the firm constitutes of term loan of Rs. 0.90 crore, working capital borrowings of Rs. 6.80 crore and unsecured loans of Rs. 1.25 crore as on March 31, 2020 (Prov.).

The debt coverage indicators marked by interest coverage ratios has improved marginally and stood weak at 1.51x in FY20 (Prov.) as compared to 1.40x in FY18 and 1.36x in FY19 due to increase in absolute amount of PBILDT. The total debt to GCA stood week at 17.99x in FY20 (Prov.) despite of y-o-y improvement on account of increase in cash accruals with growth in TOI. However, the total debt to CFO stood satisfactory at 5.27x as on March 31, 2020, as the firm has registered positive cash flows from operations as on March 31, 2020 (Prov.) due to realization of sundry debtors coupled with marginal increase in absolute amount of PBILDT.

[1]*Complete definition of the ratings assigned are available at www.careratings.com and other CARE publication*

Seasonal nature of availability of paddy result in working capital intensive nature of operations
Paddy in India is harvested mainly at the end of two major agricultural seasons Kharif (June to September) and Rabi (November to April). The millers have to stock enough paddy by the end of the 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 of the firm's funds of the firm are blocked in inventory and with customers. On account of the same, the average working capital utilization stood at 85% for last 12 months ending May 31, 2020.

Constitution of the entity as partnership firm with inherent risk of capital withdrawal
SLVAFI, being a partnership firm, is exposed to inherent risk of the partners' capital being withdrawn at time of personal contingency and firm being dissolved upon the death of partners. However, the partner has infused capital to a tune of Rs. 0.20 crore during FY18-FY20.

Key Rating Strengths
Established track record and experienced promoters
SLVAFI was established in the year 2008 and was promoted by Mr. N. Rajgopal (Managing Partner) and his family members. He has more than decade of experience in rice processing industry. Through his experience in the rice processing industry, the firm has established healthy relationship with key local suppliers and customers as well.

Location advantage with easy availability of raw material
The rice milling unit of SLVAFI is located at Koppal district which is the one of the top district for producing rice 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.

Healthy outlook demand for rice
Rice is consumed in large quantity in India which provides favourable opportunity for the rice millers and thus the demand is expected to remain healthy over medium to long term. India is the second largest producer of rice in the world after China and the largest producer and exporter of basmati rice in the world. The rice industry in India is broadly divided into two segments – basmati (drier and long grained) and non-basmati (sticky and short grained). Demand of Indian basmati rice has traditionally been export oriented where the South India caters about one-fourth share of India's exports. However, with a growing consumer class and increasing disposable incomes, demand for premium rice products is on the rise in the domestic market. Demand for non-basmati segment is primarily domestic market driven in India. Initiatives taken by government to increase paddy acreage and better monsoon conditions will be the key factors which will boost the supply of rice to the rice processing units. Rice being the staple food for almost 65% of the population in India has a stable domestic demand outlook. On the export front, global demand and supply of rice, government regulations on export and buffer stock to be maintained by government will determine the outlook for rice exports.

Liquidity: Stretched
Liquidity is marked by tightly matched accruals to repayment obligations, its working capital borrowings are utilized to the extent of 85% for the period last 12 months ending May 31, 2020. The cash and bank balances stood modest at Rs. 0.08 crore as on March 31, 2020 (Prov.), however, the current ratio of SLVAFI stood above unity at 1.32x as on March 31, 2020 (Prov.) and the firm has not availed moratorium extended by the RBI from March 1, 2020 to August 31, 2020 on its debt obligations.

Analytical approach: Standalone
Applicable Criteria
Criteria on assigning Outlook to Credit ratings
CARE's Policy on Default Recognition
Financial ratios – Non-Financial Sector
Rating Methodology-Manufacturing Companies

About the Firm
Karnataka based, Sri Lakshmi Venkatadri Agro Food Industries (SLVAFI) was established in 2008 as a partnership firm by Mr. N Rajagopal, Mr. D Bheemesh, Mrs. N Vijayalakhsmi & Mrs. D Manjula. The firm is engaged in milling and processing of rice. The manufacturing unit of the firm is located at Koppal, Karnataka with installed capacity of 5 tons per day. Apart from rice processing, the firm is also engaged in selling of by-products such as broken rice and bran.

Brief Financials (Rs. crore)	FY 19	FY 20
	A	P
Total operating income	40.40	42.55
PBILDT	1.69	1.76
PAT	0.17	0.26
Overall gearing (times)	3.64	2.60
Interest coverage (times)	1.40	1.51

A: Audited; P: Provisional

Status of non-cooperation with previous CRA: Nil

Any other information: Not Applicable

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

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	6.80	CARE BB-; Stable

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Cash Credit	LT	-	-	1)Withdrawn (15-Jun-20)	1)CARE B+; Stable; ISSUER NOT COOPERATING* (03-Feb-20)	1)CARE BB-; Stable (03-Oct-18)	1)CARE BB-; Stable (04-Oct-17)
2.	Fund-based - LT-Cash Credit	LT	6.80	CARE BB-; Stable	-	-	-	-

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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