

Sri Lakshmi Venkatadri Agro Food Industries

October 3, 2018

Rating

Facilities	Amount (Rs. crore)	Ratings ¹	Remarks
Long-term Bank Facilities	6.80(6.80)	CARE BB-, Stable (Double B Minus, Stable)	Reaffirmed
Total Facilities	6.80 (6.80) (Rupees Six Crore and Eighty Lakh only)		

Details of instruments/facilities in Annexure-1
Detailed Rationale & Key Rating Drivers

The rating assigned to the bank facilities of Sri Lakshmi Venkatadri Agro Food Industries (SLVAFI) are continues to be tempered by small scale of operations with declining PBILDT margin and thin PAT margin, leveraged capital structure with weak debt coverage indicators albeit improving year on year, seasonal nature of availability of paddy resulting in working capital intensive nature of operations, intense competition from several other players and raw material price volatility and constitution of the entity as partnership firm with inherent risk of withdrawal of capital. However the rating also factors increase in total operating income during FY18 (prov.), improvement in profit margins, improvement in working capital cycle days and current ratio, infusion of capital and expansion of building and machinery and decline in capital structure and debt coverage indicators. The rating, however, derives its strengths from experienced partner of the entity, increase in total operating income, locational advantage with presence in cluster and easy availability of paddy with healthy outlook demand of rice.

Going forward, ability of the firm to increase its scale of operations and profitability margins, improve the capital structure and debt coverage indicators and manage working capital requirements efficiently would be the key rating sensitivities.

Detailed description of the key rating drivers
Key Rating Weaknesses
Small scale of operations

With increase in scale of operations, the PBILDT margin of the firm improved and stood at 4.69% in FY18(Prov) as compared to 3.48% in FY17 and PAT margin stood at 0.62% in FY18(Prov) as compared to 0.61% in FY17. The scale of operations continued to remain small with a net worth of Rs 3.12 crore as on March 31, 2018 (Prov).

Leverage capital structure with weak debt coverage indicators albeit improving year-on-year

The overall gearing ratio of the firm deteriorated and stood at 3.02x as on March 31, 2018(Prov) as compared to 2.61x as on March 31, 2017 on account of increased total debt on back of increased term loan, taken for purchase of machinery and extension of building and increase in working capital utilisations.

The debt coverage ratios marked by Total Debt/GCA and interest coverage ratios marginally deteriorated in FY18(Prov) and stood at 16.38x and 1.57x respectively as compared to 16.34x and 1.72x respectively in FY17 on back of increased in total debt and finance charges.

Seasonal nature of availability of paddy resulting 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 each season as the price and quality of paddy

¹Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.

is better during harvesting season. The operating cycle of the firm remained moderate at 82 days in FY18. The firm receives the payment from its customer within 30-40 days and makes the payment to its supplier within 5-10 days. The firm holds the average inventory of around 40-5- days to meet the requirement of customer as the nature of operations is working capital intensive in nature. The average utilization of working capital limit stood at 90% for the last 12 month ended August 31, 2018.

Intense competition from several other players and material price volatility

SLVAFI faces stiff competition in the Rice business from large number of established and unorganized players in the market. Competition gets strong with the presence of unorganized players leading to pricing pressures. However, increasing demand scenario of Rice and its by-products in the country enables well for the entity. Further, the profitability margins of the firm are susceptible due to fluctuation in paddy prices.

Constitution of the entity as partnership firm

SLVAFI, being a partnership firm, is exposed to inherent risk of the partner's capital being withdrawn at time of personal contingency and firm being dissolved upon the death/retirement/insolvency of the partners. Moreover, partnership firm business has restricted avenues to raise capital which could prove a hindrance to its growth.

Key rating Strengths

Established track record and experience of the partner for one decade in Rice milling Industry

SLVAFI was established in the year 2008 and was promoted by Mr. N. Rajgopal (Managing Partner) and his family members. He has around 10 years 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.

Increase in total operating income during review period

The TOI increased by 15% and stood at Rs 35.13 crore in FY18 (Prov) as compared to Rs 30.55 crore in FY17 on account of increase in sales volume and sales realizations of rice and sale of parboiled rice produced from the new machinery acquired during the year.

Improvement in profit margins

With increase in scale of operations, the PBILDT margin of the firm improved and stood at 4.69% in FY18(Prov) as compared to 3.48% in FY17 and PAT margin stood at 0.62% in FY18(Prov) as compared to 0.61% in FY17. The scale of operations continued to remain small with a net worth of Rs 3.12 crore as on March 31, 2018 (Prov).

Healthy demand outlook of rice

Rice is consumed in large quantity in India which provides favorable 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.

Locational advantage with presence in cluster and easy availability of paddy

The rice milling unit of SLVAFI is located at Koppal district which is 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.

Analytical Approach: Standalone

Applicable Criteria

[Criteria on assigning Outlook to Credit ratings](#)
[CARE's Policy on Default Recognition](#)
[Rating Methodology-Manufacturing Companies](#)
[Financial ratios – Non-Financial Sector](#)

About the Firm

Karnataka based, Sri Lakshmi Venkatadri Agro Food Industries (SLVAFI) was established in 2008 as a partnership firm. The rice milling unit of the firm is located at Budugumpa Road, Karatagi, Koppal, Karnataka with the area covering five acres. Apart from rice processing, the firm is also engaged in selling of by-products such as broken rice and bran. The main raw material, paddy, is purchased from the local suppliers and farmers located in and around Karatagi. The firm sells rice and other by-products in the states of Tamil Nadu, Karnataka and Maharashtra. The rice milling unit of the firm has an installed capacity of 1050 quintals of rice per day and the capacity utilization of the firm is 1020 quintals per day as on September 30, 2017.

Brief Financials (Rs. crore)	FY17 (A)	FY18 (P)
Total operating income	30.56	35.14
PBILDT	1.01	1.59
PAT	0.19	0.22
Overall gearing (times)	2.61	3.02
Interest coverage (times)	1.82	1.64

A: Audited, P: Provisional

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not applicable

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

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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In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT-Cash Credit	LT	6.80	CARE BB-; Stable	-	1)CARE BB-; Stable (04-Oct-17)	-	-

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