

**Sri Lakshmi Venkatadri Agro Food Industries**  
**October 4, 2017**

**Rating**

Facilities	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Long-term Bank Facilities	6.80	<b>CARE BB-; Stable (Double B minus; Outlook Stable)</b>	<b>Assigned</b>
<b>Total</b>	<b>6.80 (Rupees Six Crore eighty lakh only)</b>		

*Details of facilities in Annexure-1*

**Detailed Rationale & Key Rating Drivers**

The rating assigned to the bank facilities of Sri Lakshmi Venkatadri Agro Food Industries (SLVAFI) is tempered by small scale of operations, declining PBILDT margin and thin PAT margin during review period, leveraged capital structure with weak debt coverage indicators, 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. 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**

SLVAFI was established in the year 2008. Thus, the firm has reasonable track record of operations. The total operating income stood moderate at Rs.30.55 crore in FY17 (CA Certified prov.) with low net worth base of Rs.2.83 crore as on March 31, 2017 (A) when compared to other peers in the industry.

**Declining PBILDT margin and thin PAT margins during FY15-FY17**

The PBILDT margin of the firm has been declining y-o-y basis from 7.93% in FY15 to 4.42% in FY17 due to fluctuation in material costs and along with intensely competitive business segment with presence of numerous players in rice milling business. The PAT margin of the firm has been thin and fluctuating in the range of 0.65%-0.44% during FY15-FY17 due to high interest expenses due to full utilisation of working capital limits along with term loans availed for installation of the new machinery by the firm in rice mill.

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

The capital structure of the firm remained leveraged during review period. However, the debt equity ratio of the firm has been improving year-on-year and remained below unity for the last two balance sheet date ended March 31, 2017 due to

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and other CARE publications

repayment of term loans coupled with increase in tangible net worth on account of accretion of profits. Furthermore, the overall gearing ratio improved from 3.91x as on March 31, 2015 to 2.44x as on March 31, 2017 due to reasons mentioned above. The debt profile of the firm includes working capital bank borrowings which comprise 85% of the total debt and the remaining 15% comprises of term loan.

The debt coverage indicators of the firm remained weak during review period although improving year-on-year marked by total debt/GCA which improved from 20.03x in FY15 to 10.27x in FY17 on account of increase in cash accruals. The PBILDT interest coverage ratio also improved from 1.53x in FY15 to 2.32x in FY17 on account of decrease interest cost and satisfactory PBILDT level.

#### **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 is better during harvesting season.

The operating cycle of the firm remained moderate at 80 days in FY17. The firm receives the payment from its customer within 15-20 days and makes the payment to its supplier within 20-25 days. The firm holds the average inventory of around 80-90 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, 2017.

#### **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 total operating income of the firm has increased at a Compounded Annual Growth Rate (CAGR) of 18.03% from Rs. 18.58 crore in FY15 to Rs.30.55 crore in FY17 (C A Certified Prov.) due to regular demand of rice and rice by-products from existing customers along with addition of new customers.

##### **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.

<b>Brief Financials (Rs. crore)</b>	<b>FY16 (Audited)</b>	<b>FY17 (Provisional)</b>
Total operating income	26.40	30.55
PBILDT	1.42	1.35
PAT	0.11	0.19
Overall gearing (times)	3.14	2.44
Interest coverage (times)	1.46	2.32

**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](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto: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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Fund-based - LT-Cash Credit	LT	6.80	CARE BB-; Stable	-	-	-	-

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