

## Sri Lakshmi Venkatadri Agro Food industries

February 03, 2020

Rating	Amount (Rs. crore)	Ratings <sup>1</sup>	Rating Action
Facilities			
Long -term Bank Facilities	6.80	CARE B+; Stable; ISSUER NOT COOPERATING* (Single B Plus; Outlook: Stable; Issuer Not Cooperating)	Issuer not cooperating; Revised from CARE BB-; Stable (Double B Minus; Outlook Stable); Based on best available information
<b>Total Facilities</b>	<b>6.80</b> <b>(Rupees Six Crore eighty lakh only)</b>		

*Details of instruments/facilities in Annexure*

### Detailed Rationale & Key Rating Drivers

CARE has been seeking information from of Sri Lakshmi Venkatadri Agro Food Industries (SLVAFI) to monitor the rating(s) vide e-mail communications dated June, 2019 to December 16, 2019 and numerous phone calls. However, despite our repeated requests, the company has not provided the requisite information for monitoring the ratings. In line with the extant SEBI guidelines, CARE has reviewed the rating on the basis of best available information which however, in CARE's opinion is not sufficient to arrive at fair rating. The rating on Sri Lakshmi Venkatadri Agro Food Industries (SLVAFI) bank facilities will now be denoted as CARE B+; Stable; ISSUER NOT COOPERATING\*

***Users of this rating (including investors, lenders and the public at large) are hence requested to exercise caution while using the above rating.***

### Detailed Rationale & Key Rating Drivers

*At the time of last press release dated October 03, 2018 the following were the rating strengths and weaknesses:*

#### 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 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.

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

\*Issuer Not Cooperating based on best available information

### ***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.

#### ***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**

[Policy in respect of Non-cooperation by issuer](#)  
[Criteria on assigning Outlook to Credit Ratings](#)  
[CARE's Policy on Default Recognition](#)  
[Financial ratios – Non-Financial Sector](#)  
[CARE's Rating Methodology- Manufacturing Companies](#)

#### **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.

<b>Brief Financials (Rs. crore)</b>	<b>FY17 (A)</b>	<b>FY18 (P)</b>
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

**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 B+; Stable; ISSUER NOT COOPERATING* Issuer not cooperating; Revised from CARE BB-; Stable on the basis of best available information

*\*Issuer not cooperating; on the basis of best available information*

**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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - LT-Cash Credit	LT	6.80	CARE B+; Stable; ISSUER NOT COOPERATING* Issuer not cooperating; Revised from CARE BB-; Stable on the basis of best available information	-	1)CARE BB-; Stable (03-Oct-18)	1)CARE BB-; Stable (04-Oct-17)	-

*\*Issuer not cooperating; on the basis of best available information*

**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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### About CARE Ratings:

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