

## Sri Padmavathi Rice Mill

September 21, 2020

### Ratings

Facilities	Amount(Rs. crore)	Rating <sup>1</sup>	Rating Action
Long term Bank Facilities	6.83 (Reduced from 8.00)	<b>CARE B+; Stable</b> <b>(Single B Plus; Outlook: Stable)</b>	<b>Reaffirmed and Removed from INC</b>
<b>Total Facilities</b>	<b>6.83</b> <b>(Rupees Six Crore and Eighty Three Lakh only)</b>		

*Details of instruments/facilities in Annexure-1*

### Detailed Rationale & Key Rating Drivers

The rating assigned to the bank facilities of Sri Padmavathi Rice Mill (SPRM) takes into account small scale of operations, satisfactory profitability margins and satisfactory capital structure and debt coverage indicators during FY 20 (Provisional) (refers to period April 01 to March 31). However the rating continues to be tempered by working capital intensive nature of operations, constitution of the entity as a partnership firm with inherent risk of capital withdrawal, Fragmented nature of industry. The rating, however, derives strength from experienced partners, location advantage and stable outlook of rice industry

### Rating Sensitivities

**Positive Factors** (Factors that could lead to positive rating action/upgrade)

- Increase in scale of operations marked by total operating income above Rs.42.00 crore
- Any improvement in profitability margin marked by PBILDT margin falling above 6% on a sustained basis

**Negative Factors** (Factors that could lead to negative rating action/downgrade)

- Prolonged period of COVID 19 pandemic impact on the firms business

### Detailed description of the key rating drivers

#### Key Rating Weaknesses

##### **Small scale of operation**

The firm has a short operational track record, FY 20 being first full year of operations, the TOI stood at Rs. 36.42 crore in FY20 (Prov.) as compared to Rs.24.32 crore in 11MFY19 due to increase in the demand of the products.

##### **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 season the firm keeps a stock of upto 3 months, hence the operating cycle stood elongated at 76 days in FY20 (Prov.) as compared to 52 days in FY19. During December-June, the working capital requirements of the rice millers are generally on the higher side.

##### **Constitution of the entity as a partnership firm with inherent risk of capital withdrawal**

Sri Padmavathi Rice Mill, 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. The partners of the firm infused capital of Rs.0.33 crore as on March 31, 2020 (Prov.) for meeting the operational expenditure of the firm

##### **Fragmented nature of industry**

The rice milling business requires limited quantum of investment in machinery, however has high working capital needs. Further, rice milling is not very technology intensive and as a consequence the industry is highly fragmented with large number of players operating in the organized and unorganized segments. The high level of competition has ensured limiting bargaining power, as a consequence of which rice mills are operating at low to moderate profitability margins.

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

## **Key Rating Strengths**

### ***Experienced partners***

Sri Padmavathi Rice Mill is promoted by Mr.P.Gururaj and by his other family members. The partners of the firm are well qualified and have vast experience of more than two decades in rice mill industry. The firm is benefited by its qualified and experienced partners in the similar line of business.

### ***Location advantage***

The rice milling unit of Sri Padmavathi Mill is located at Karatagi, Koppal district, which is one of the major paddy markets 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.

### ***Stable outlook of rice industry***

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.

### ***Satisfactory profitability margins***

The profitability margins although declined stood satisfactory at 4.15% in FY20 (Prov.) as compared to 5.02% in FY19. The PAT margin improved and stood at 1.96% in FY20 (prov.) as compared to 1.37% in FY19 due to decrease in finance costs.

### ***Satisfactory capital structure and debt coverage indicators***

The capital structure marked by overall gearing improved and stood at 1.01x as on March 31, 2020 (Prov.) as compared to 1.66x as on March 31, 2019 due to lower utilization of working capital borrowings on back of repayment of term loan. The debt profile of the firm consists of Working capital borrowings of Rs.3.85 crore, term loan of Rs.0.99 crore and Vehicle loan of Rs. 0.34 crore as on March 31, 2020 (Prov.)

The debt coverage indicators marked by total debt/GCA and interest coverage ratio stood satisfactory at 4.39x and 4.57x as on March 31, 2020 (Prov.) and 7.80x and 2.91x as on March 31, 2019 due to decrease in total debt coupled with increase in cash accruals and PBILDT in absolute terms.

### ***Liquidity analysis: Stretched***

Liquidity is stretched marked by moderate utilization of bank limits to the extent of 70-75% and low cash balance of Rs.0.01 crore as on March 31, 2020 (Prov.). The current ratio of the firm stood above unity at 1.95x as on March 31, 2020 (Prov.). Further, the firm had not availed for the moratorium on its debt obligations

### **Analytical Approach: Standalone**

#### **Applicable Criteria**

[CARE's 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**

Koppal based, Sri Padmavathi Rice Mill (SPRM) was established in 2017 as a partnership firm by Mr.P.Gururaj (Managing Partner) and his family members. The firm is engaged in milling and processing of rice. The rice milling unit of the firm is located at Koppal district, Karnataka on a land area of 3.5 acres. Apart from rice processing, the firm is also engaged in selling of by-products such as broken rice, husk and bran. The main input, paddy, is directly procured from local farmers located in and around Koppal District and the firm sells rice and other by-products in the states of Karnataka, Tamil Nadu and Maharashtra. The firm started its commercial operations from May 2018. As on September 08, 2020 the firm has an installed capacity of 6 tons of rice per hour.

Brief Financials (Rs. crore)	11MFY19	FY20
	A	P
Total operating income	24.32	36.42
PBILDT	1.22	1.51
PAT	0.33	0.72
Overall gearing (times)	1.66	1.01
Interest coverage (times)	2.91	4.57

A: Audited; P: Provisional

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History (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-Term Loan	-	-	November, 2022	0.83	CARE B+; Stable
Fund-based - LT-Cash Credit	-	-	-	6.00	CARE B+; 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-Term Loan	LT	0.83	CARE B+; Stable	-	1)CARE B+; Stable; ISSUER NOT COOPERATING* (18-Feb-20)	1)CARE B+; Stable (24-Oct-18)	-
2.	Fund-based - LT-Cash Credit	LT	6.00	CARE B+; Stable	-	1)CARE B+; Stable; ISSUER NOT COOPERATING* (18-Feb-20)	1)CARE B+; Stable (24-Oct-18)	-

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

#### Annexure 4: Complexity level of various instruments rated for this Firm

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Cash Credit	Simple
2.	Fund-based - LT-Term Loan	Simple

**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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