Sri Ramachandra Pooja Industries

November 19, 2019

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long-term Bank Facilities	7.00 (reduced from 10.00)	**CARE B+; Stable (Single B Plus; Outlook: Stable)**	**Removed from INC and reaffirmed**
Total	**7.00 (Rupees Seven Crore only)**		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating assigned to the bank facilities of Sri Ramachandra Pooja Industries (SRPI) continue to be tempered by small scale of operations, seasonal nature of availability of paddy resulting in working capital intensive nature of operations and partnership nature of constitution with inherent risk of withdrawal of capital. The ratings also take in to account marginal deterioration in capital structure, debt coverage indicators and working capital cycle and marginal improvement in the profitability margins.

The rating is, however, continues to be underpinned by the established track record and experience of partner for more than two decades in rice milling industry, stable total operating income during FY19 (Prov.), healthy demand outlook of rice and location advantage with presence in cluster and easy availability of paddy.

Rating Sensitivities

Positive Factors

- Increase in scale of operations marked by total operating income
- Increase in profitability or gross cash accruals on a sustained basis

Negative Factors

- Deterioration in capital structure and debt coverage indicators
- Deterioration in cash flow from operation and elongation in working capital cycle
- Negative change in government policy

Detailed description of the key rating drivers

Key Rating Weaknesses

Small scale of operations and thin profitability margins

The scale of operations continued to remain small at total operating income of Rs.38.50 crore in FY19 (Prov.) with a small net worth of Rs.4.40 crore as on March 31, 2019 (Prov.). The net worth has improved from Rs.3.96 crore in FY18 on back of accretion of profits to the reserves. The profitability margin increased marginally, by 16 bps, from 1.55% in FY18 to 1.71% in FY19 (Prov.) on back of reduced cost of raw material. The PAT margin stood stable at 0.12% in FY19 (Prov.) due to increase in the interest cost on back of increase in the working capital utilization to fund the day-to-day business needs.

Marginal deterioration in capital structure, weak debt coverage indicators and operating cycle

The capital structure of the firm marked by overall gearing deteriorated from 1.27x as on March 31, 2018 to 1.60x as on March 31, 2019 (Prov.) due to increased working capital for funding the day-to-day business of the firm despite an increase in the net worth of the firm and repayment of long-term loan.

The debt coverage indicators of the firm continued to remain weak, and declined, marked by total debt/GCA, from 35.65x in FY18 to 54.52x in FY19 (Prov.) due to increase in total debt on back of increase in the working capital balance on the balance sheet date. The PBILDT interest coverage ratio, declined marginally from 1.20x in FY18 to 1.15x in FY19 (Prov.) due to increase in interest expenses. TD/CFO declined and stood negative at 3.80x in FY19 (Prov.) due to negative working capital changes resulting from an increase in the receivables on as balance sheet date.

The operating cycle of the firm increased and stood at 92 days in FY19 (Prov.) as against 78 days in FY18 on back of increase in the average inventory period from 55 days in FY18 to 69 days in FY19 (Prov.) to meet the demand for rice. The firm receives the payment from its customer within 45-60 days and makes the payment to its supplier within 5-10 days. The firm holds the average inventory of around 60-80 days to meet the requirement of customer as on need basis. The average utilization of working capital limit stood at ~98% for the last 12 month ended October 31, 2019.

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

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 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. Moreover, the padd y is procured from the farmers generally against cash payments or with a minimal credit period of 5-10 days while the millers have to extend credit to the wholesalers and distributors around 20-30 days resulting in high working capital utilization reflecting working capital intensity of business.

Partnership nature of constitution with inherent risk of withdrawal of capital

SRPI, 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. However, the partners infused capital of Rs.0.39 crore during FY19 (Prov.).

Key Rating Strengths

Established track record and experience of partner for more than two decades in rice milling industry

SRPI was promoted by Mr. Krishna Rao (Managing Partner), Mr. Subba Rao (partner) and his family members. Partners have around 25 years of experience in rice processing business. Through his experience in the rice processing, they have established healthy relationship with key suppliers, customers, local farmers, dealers and also with the brokers facilitating the rice business within the state.

Stable total operating income during FY19 (Prov.)

The total operating income remained almost stable at Rs.38.50 crore in FY19 (Prov.) as against Rs.38.48 crore in FY18 on back of demand from existing customers remaining almost stable

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.

Location advantage with presence in cluster and easy availability of paddy.

The rice milling unit of VDI 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.

Liquidity Analysis: Stretched

Liquidity was stretched marked by low cash accruals, low cash balance and high utilization of fund-based limits with moderate cash flows. Cash flow from operating activity (CFO) has declined and stood negative at Rs.1.85 crore in FY19 (Prov.) as against positive CFO of Rs.0.22crore in FY18. As on March 31, 2019, cash & bank balance also remained low at Rs.0.07 crore as compared to Rs.0.06 crore as on March 31, 2018. Average utilization of working capital limit remained high at ~98% for the past 12 months ended October, 2019.

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 Company

Sri Ramachandra Pooja Industries (SRPI) was established in 1993 as a partnership firm. SRPI is engaged in milling and processing of rice. The rice milling unit of the firm is located at Bevinahal Po: Karatagi, Gangavathi, Koppal, Karnataka. Apart from rice processing, the firm is also engaged in selling off bi-products such as broken rice, husk and bran. The main raw material, paddy, is directly procured from local farmers located in and around Koppal District and the firm sells rice and other by-products in Chennai, Tamilnadu, Andhra Pradesh, Mumbai, Bangalore etc. Presently, the firm has installed capacity of 72 tons per day.

Brief Financials (Rs. crore)	FY18 (A)	FY19 (Prov.)
Total operating income	38.48	38.50
PBILDT	0.60	0.66
PAT	0.04	0.05
Overall gearing (times)	1.27	1.60
Interest coverage (times)	1.20	1.15

A-Audited; Prov.: Provisional

Status of non-cooperation with previous CRA: CRISIL has conducted the review on the basis of best available information and has classified 'Sri Ramachandra Pooja Industries' as "Not Cooperating" vide its press release dated September 10, 2019

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	-	-	-	7.00	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 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	7.00	CARE B+; Stable	1)CARE B+; Stable; ISSUER NOT COOPERATING* (17-Jun-19)	1)CARE BB-; Stable (13-Jul-18)	-	-

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.*

Contact us

Media Contact
Mradul Mishra
Contact no. – +91-22-6837 4424
Email ID – mradul.mishra@careratings.com

Analyst Contact
Group Head Name - Mr Manish Kumar
Group Head Contact no.- 040-67937415
Group Head Email ID- manish.kumar@careratings.com

Business Development Contact
Name: Mr.Saurav Pandey
Contact no.: 080 – 4662 5555
Email ID: saurav.pandey@careratings.com

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