Rating Rationale

Sri Venkateswara Modern Boiled & Raw Rice Mill

31 May 2019

Brickwork Ratings assigns the ratings for the Bank Loan Facilities of ₹. 6.70 Crores of Sri Venkateswara Modern Boiled & Raw Rice Mill.

Particulars

Facilities	Amount (₹ Crs)	Tenure	Ratings*
Fund based			
Open Cash Credit	**3.40**	**Long Term**	**BWR B** **Outlook: Stable** Pronounced As BWR Single B
Non Fund Based			
Bank Guarantee	**3.30**	**Short Term**	**BWR A4** Pronounced As BWR A Four
Total	**6.70**	**INR Six Crores and Seventy Lakhs Only**	

*Please refer to BWR website www.brickworkratings.com/ for definition of the ratings

Rationale/Description of Key Rating Drivers/Rating sensitivities:

BWR has essentially relied upon the audited financials upto FY18, provisional financials of 6MFY19, publicly available information and information/clarifications provided by the firm's management.

The rating draws strength from the experience of partners in the paddy processing business, established relationships with client, growing industry advantage. However, the ratings are constrained by small scale of operations, presence in intensely competitive industry, inherent risk associated with the food processing industry, constitution of the entity as a partnership firm and working capital intensive nature of operations.

Going forward, the ability of the firm to increase its scale of operations, improve its profitability, strengthen its overall credit profile and manage its working capital efficiently would be the key rating sensitivities.

Description of Key Rating Drivers

Credit Strengths:

- The promoters have more than three decades of experience in paddy processing and trading, which has helped them to understand local market dynamics and establish relationships with customers and suppliers.
- The processing unit is located at West Godavari, Andhra Pradesh and is close to the paddy growing belt in Uradallapalem, Attili Mandal, West Godavari, Andhra Pradesh, which ensures availability of paddy directly from the farmers.

Credit Risks:

- The firm has Low scale of operations and low profitability as reflected by revenue of around Rs.14.20 Crs and PAT of Rs.0.02 Crs. in FY18.
- Low Financial profile with low capital structure and debt service metrics. Low partners capital, moderate gearing, interest service coverage ratio and debt service coverage ratio were around Rs.2.1 Crs, 1.84 times, 1.05 times and 1.08 times respectively as on 31st March 2018.
- Since paddy is an agricultural commodity, its availability depends on the vagaries of the monsoon. It is exposed to inherent price fluctuation risk associated with agro based commodities.
- Entry barriers in the rice milling industry are low on account of limited capital & technology requirements and low differentiation in the end product. This leads to intense competition and limits players' pricing power, resulting in lower profitability.
- Working capital requirements are high because of the high inventory level needed due to seasonal availability of paddy.
- Constitution as partnership firm has the inherent risk of possible withdrawal of the capital by partners which can adversely affect its capital structure.

Analytical Approach

For arriving at its ratings, BWR has applied its rating methodology as detailed in the Rating Criteria detailed below (hyperlinks provided at the end of this rationale).

Rating Outlook: Stable

BWR believes the Sri Venkateswara Modern Boiled & Raw Rice Mill business risk profile will be maintained over the medium term. The 'Stable' outlook indicates a low likelihood of rating change over the medium term. The rating outlook may be revised to 'Positive' in case the revenues and profit show sustained improvement. The rating outlook may be revised to 'Negative' if the revenues go down and profit margins show lower than expected figures.

About the Firm

Sri Venkateswara Modern Boiled & Raw Rice Mill was established in 1984, Uradallapalem, Attili Mandal, West Godavari Dist., Andhra Pradesh. The Firm procures paddy from the farmers and engaged in the grading of rice processing and trading**.** The installed capacity of the firm is 800 quintals per day and average utilization is more than 70% of the capacity**.** The Firm has 3 Godowns of 4000 MT capacity**.** The Rice Mill processing unit is spread across around 4 acres of firms' own land**.**
Mr. Kothapalli Satyanarayana and Mr.Kothapalli Venkata Suryanarayana are the Managing Partners of the firm. Other two partners of the firm are Kothapalli Suryavani and Kothapalli Umarani.

Firm Financial Performance

Sri Venkateswara Modern Boiled & Raw Rice Mill reported revenue of Rs.14.57 Crs and PAT of Rs.0.02 Crs for FY18 as against revenue of Rs 16.06 Crs with a PAT of Rs.0.01 Crs for FY17. Partners capital was Rs. 2.10 crore as on 31st March 2018. Total Debt was Rs. 3.86 crore and current ratio was 1.54 times as on 31st March 2018. ISCR and DSCR were 1.20 times and 1.05 times respectively, as on 31st March 2018.

Key Financial Indicators

Key Parameters	Units	2018	2017
Result Type		Audited	Audited
Operating Revenue	₹ Cr	14.57	16.06
EBITDA	₹ Cr	0.55	0.67
PAT	₹ Cr	0.02	0.01
Partners' Capital	₹ Cr	2.10	2.09
Total Debt/Partners' Capital	Times	1.84	1.80
Current Ratio	Times	1.54	1.58

Rating History for the last three years

S.No	Instrument /Facility	Current Ratings (May 2019)			Ratings History		
		Type	Amount (₹ Crs)	Ratings	2018	2017	2016
1	Open Cash Credit	Long Term	3..40	**BWR B** **Outlook: Stable** Pronounced As BWR Single B	NA	NA	NA
2	Bank Guarantee	Short Term	3.30	**BWR A4** Pronounced As BWR A Four			
	Total		**6.70**	**₹ Six Crores and Seventy Lakhs Only**			

Status of non-cooperation with previous CRA (if applicable)-Reason and comments: N

Any other information: NA

Hyperlink/Reference to applicable Criteria

- **General Criteria**
- **Approach to Financial Ratios**
- **Manufacturing Companies**
- **Short Term Debt**

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For print and digital media

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Note on complexity levels of the rated instrument:

BWR complexity levels are meant for educating investors. The BWR complexity levels are available at www.brickworkratings.com/download/ComplexityLevels.pdf Investors queries can be sent to info@brickworkratings.com.

About Brickwork Ratings

Brickwork Ratings (BWR), a SEBI registered Credit Rating Agency, accredited by RBI and empaneled by NSIC, offers Bank Loan, NCD, Commercial Paper, MSME ratings and grading services. NABARD has empaneled Brickwork for MFI and NGO grading. BWR is accredited by IREDA & the Ministry of New and Renewable Energy (MNRE), Government of India. Brickwork Ratings has Canara Bank, a leading public sector bank, as its promoter and strategic partner.

BWR has its corporate office in Bengaluru and a country-wide presence with its offices in Ahmedabad, Chandigarh, Chennai, Hyderabad, Kolkata, Mumbai and New Delhi along with representatives in 150+ locations.

DISCLAIMER

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