



RATING RATIONALE

14 Oct 2020

RAMI REDDY AGRO INDUSTRY

Brickwork Ratings reaffirms the long term and short term ratings for the Bank Loan Facilities of ₹. 14.00 Crores of Rami Reddy Agro Industry.

Particulars

Facility	Amount (₹ Crs)		Tenure	Rating*	
	Previous	Present		Previous (Sep, 2019)	Present
Fund Based	14.00	14.00	Long Term	BWR BB+ Stable	BWR BB+ Stable (Reaffirmed)
Non Fund Based	(2.00)	(6.00)	Short Term	BWR A4	BWR A4 (Reaffirmed)
Total	14.00	14.00	INR Fourteen Crores Only		

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

** Details of Bank facilities are provided in Annexure-I

RATING ACTION / OUTLOOK

Brickwork Ratings has **reaffirmed** the long term rating of ‘**BWR BB+/Stable**’, and has **reaffirmed** the short term rating of ‘**BWR A4**’, for the bank loan facilities amounting to Rs. 14.00 Crores of Rami Reddy Agro Industry.

BWR has essentially relied upon the audited financial results up to FY19, provisional financials of FY20, publicly available information, and information/clarifications provided by the firm’s management, to arrive at the present rating.

The rating has factored in, inter alia, the extensive experience of most of the partners of over two decades in food grain processing business, long existence of the company for 15 years, year on year improvement in tangible net worth from FY17 to FY19, moderate gearing and adequate debt protection metrics in FY19. However, the rating is constrained by the decline in revenue in FY19, thin profit margins and working capital intensive nature of business and ongoing Covid-19 pandemic in the country. Going forward, the ability of the firm to scale up its

operations, to improve its profit margins while maintaining a healthy overall financial risk profile in an intensely competitive industry, will remain the key rating sensitivities.

The outlook has been considered to be '**Stable**' as BWR believes that the business risk profile of Rami Reddy Agro Industry will be maintained over the medium term, indicating that there is 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.

KEY RATING DRIVERS

Credit Strengths :

- **Experienced Management Team** : Majority of partners of the firm are having more than two decades of industry experience in processing and selling of food grains.
- **Long Existence of the Firm** : The firm is in existence for 15 years with a satisfactory business history.
- **Moderate Gearing in FY19** : The firm has maintained its gearing at moderate level with total debt to tangible net worth of 1.14 times as on 31.03.2019 as against 0.52 times in FY18.
- **Adequate Debt Protection Metrics in FY19** : The debt protection metrics of the firm were adequate with ISCR of 1.54 times and DSCR of 1.25 times in FY19. As per FY20 provisionals, the ISCR is 1.49 times and DSCR is 1.23 times.

Credit Weaknesses :

- **Decline in Total Operating Income** : The total operating income of the firm was declined from Rs. 54.04 Crores in FY18 to Rs. 47.31 Crores in FY19. As per FY20 provisional financials, the firm has achieved revenue of Rs. 50.43 Crores.
- **Thin Profit Margins** : The firm reported thin profit margins with operating profit margin of 2.70% and net profit margin of 0.54% in FY19.
- **Agro Climatic Risk**: Paddy being an agricultural commodity is exposed to agro climatic conditions and exposed to inherent price fluctuation risk associated with agro based commodities.
- **Partnership Constitution**: Besides the inherent risks such as capital withdrawal & dissolution, the partnership constitution of an entity restricts its ability to raise capital at competitive terms.



- **Highly Competitive Industry:** The rice industry is highly competitive and fragmented in nature because of the presence of established players having a good brand recognition along with numerous small players.

ANALYTICAL APPROACH AND APPLICABLE RATING CRITERIA

For arriving at its ratings, BWR has considered the standalone performance of Rami Reddy Agro Industry and has applied its rating methodology as detailed in the Rating Criteria (hyperlinks provided at the end of this rationale)

RATING SENSITIVITIES

Going forward, the ability of the firm to scale up its operations and to improve its profit margins while managing its gearing would be the key rating sensitivities.

Positive: The rating may be positively revised if there is further growth in revenue and profit margins while maintaining a healthy overall financial profile.

Negative: The rating may be adversely affected if there is deterioration in capital structure, profit margins and any delays in payment of its debt obligations.

LIQUIDITY POSITION : Adequate

The firm's liquidity position is adequate, with a current ratio of 1.69 times in FY19 as against 2.54 times in FY18. The cash and cash equivalents of the company were at Rs. 0.06 Crores as on 31 March 2019 as against Rs.0.17 Crores as on 31 March 2018. The firm has utilized ~ 40% to 45% of its working capital limits during March, 2020 to August 2020.

FIRM'S PROFILE

Rami Reddy Agro Industry is a partnership firm established in 2005 with office at Rayavaram in East Godavari district of Andhra Pradesh. The firm has nine partners namely Mr. Sathi Rami Reddy, Mr. Sathi Verabhadra Reddy, Mr. Nallamilli Brahma Reddy, Mr. Sathi Veerabhadru, Mr. Sathi Konda Reddy, Mr. Sathi Satyanarayana Reddy, Mr. Nallamilli Nagi Reddy, Mr. Kovvuri Chiranjeevi Reddy and Smt. Nallamilli Mahalakshmi. The firm is engaged in the milling of paddy to process boiled rice with by-products like husk, rice bran, broken rice and others. The firm has its paddy milling & processing unit located in Vedurupaka Savaram village, Rayavaram mandal, East Godavari district of Andhra Pradesh. The firm procures paddy directly from farmers from nearby localities. The firm sells the boiled rice majorly to wholesalers of Kerala.

KEY FINANCIAL INDICATORS

Key Parameters	Units	FY18	FY19
Result Type		(Audited)	(Audited)
Total Operating Income	Rs. Crores	54.04	47.31
EBITDA	Rs. Crores	1.53	1.28
PAT	Rs. Crores	0.28	0.25
Tangible Net Worth (TNW)	Rs. Crores	6.89	7.34
Total Debt/ TNW	Times	0.52	1.14
Current Ratio	Times	2.54	1.69

NON-COOPERATION WITH PREVIOUS RATING AGENCY : Nil

RATING HISTORY FOR THE PREVIOUS THREE YEARS [including withdrawal and suspended]

Facility	Current Rating (Sep 2020)			Rating History [^]								
	Type	Amount (₹ Cr)	Rating	2019			2018			2017		
Fund Based	Long Term	14.00	BWR BB+ Stable (Reaffirmed)	<u>12.09.2019</u>			<u>30.08.2018</u>			<u>16.10.2017</u>		
				FB	14.00	BWR BB+ Stable, (Reaffirmed)	FB	14.00	BWR BB+ Stable, (Upgraded)	FB	12.00	BWR BB Stable, (Reaffirmed)
				Total	14.00		Total	14.00		Total	12.00	
				<u>Total Rs.14.00 Crs</u>			<u>Total Rs.14.00 Crs</u>			<u>Total Rs.12.00 Crs</u>		
Non Fund Based	Short Term	(6.00)	BWR A4 (Reaffirmed) with enhancement from Rs. 2.00 Crs	<u>12.09.2019</u>			<u>30.08.2018</u>			NIL		
				NFB	(2.00)	BWR A4 (Reaffirmed)	NFB	(2.00)	BWR A4 (Assigned)			
				Total	(2.00)		Total	(2.00)				
				<u>Total Rs.14.00 Crs</u>			<u>Total Rs.14.00 Crs</u>					
Total	20.00	INR Twenty Crores Only										

FB - Fund Based & NFB - Non Fund Based

[^] Initial rating of 'BWR BB-/Stable' was assigned to the firm for the bank Loan facilities of Rs. 9.35 Crores on 03 December 2013.

COMPLEXITY LEVELS OF THE INSTRUMENTS

For more information, visit www.brickworkratings.com/download/ComplexityLevels.pdf

Hyperlink/Reference to applicable Criteria

- [General Criteria](#)
- [Approach to Financial Ratios](#)
- [Manufacturing Companies](#)
- [Short Term Debt](#)

For any other criteria obtain hyperlinks from website

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Annexure I Rami Reddy Agro Industry Details of Bank Loan Facilities rated by BWR

Sl.No.	Name of the Bank	Type of Facility	Long Term [Rs. Crs]	Short Term [Rs. Crs]	Total [Rs. Crs]
1	Union Bank of India	Open Cash Credit (OCC)	14.00	-	14.00
		Bank Guarantee (Sub-limit of OCC)	-	(6.00)	(6.00)
TOTAL					14.00

Total Rupees Fourteen Crores Only



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