

RATING RATIONALE

12Sep2019

Rami Reddy Agro Industry

Brickwork Ratings Reaffirms the ratings for the Bank Loan Facilities of ₹ 14.00 Crores of Rami Reddy Agro Industry

Particulars:

Facility**	Amount (₹ Cr)		Tenure	Rating*	
	Previous	Present		Previous (Aug, 2018)	Present
Fund based	14.00	14.00	Long Term	BWR BB+ <i>(Pronounced as BWR Double B Plus)</i> (Outlook: Stable)	BWR BB+ <i>(Pronounced as BWR Double B Plus)</i> (Outlook: Stable) [Reaffirmed]
Non Fund Based	(2.00)	(2.00)	Short Term	BWR A4 <i>(Pronounced as BWR A Four)</i>	BWR A4 <i>(Pronounced as BWR A Four)</i> [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 is provided in Annexure-I

RATING ACTION / OUTLOOK

Brickwork Ratings has reaffirmed the rating of Rami Reddy Agro Industry to BWR BB+ (Outlook: Stable)/BWR A4 to the bank loan facilities of Rs.14.00 Crs.

The ratings have been assigned a stable outlook as the business risk profile of the firm is stable and the growth in the business and profitability is expected to be maintained in the medium term.

KEY RATING DRIVERS

Credit Strengths:

- Established track record in the business as the firm is active since 2005
- The partners have extensive experience in rice milling industry, which has helped them to understand local market dynamics and establish relationships with customers and suppliers which support business growth
- Moderate financial risk profile reflected by low gearing at 0.52 times in FY18 with moderate interest servicing capability indicated by ISCR which stood at 1.50x in FY18



- The firm's rice milling unit is located in the East Godavari district, Andhra Pradesh, a paddy growing belt of Andhra Pradesh, which ensures easy availability of paddy directly from farmers, making operations cost-effective.

Credit Risks:

- The price of paddy (key raw material) is highly volatile as it is dependent on demand-supply scenario, monsoon, and crop cycles. Also, since the cost of procuring paddy accounts for the bulk of the production expense, even a slight variation in price can drastically impact profitability.
- The Indian rice industry is fragmented, with low entry barriers due to limited capital and technology intensity, leading to a highly competitive market. The scale of operations is hence declined in Prov FY19 to Rs. 47.25 Crs from Rs. 54.04 Crs in FY18
- Partnership constitution of the firm which exposes it to risks of continuity and withdrawal of capital
- High working capital requirement due to the nature of business operations

ANALYTICAL APPROACH AND APPLICABLE RATING CRITERIA

For arriving at its ratings, BWR has considered the standalone performance of **Rami Reddy Agro Industry**. BWR 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 improve its scale of operations by improving its profitability margins and efficiently manage industry risk would remain the key rating sensitivities.

Positive: Rating may be upgraded in case of substantial improvement in revenues from level of Rs. 47.25 Crs achieved in FY19 along with similar increase in the profit margins.

Negative: Rating may be downgraded in case revenues of the firm substantially deteriorates from current level. Rating may also be adversely affected in case of adequate deterioration in gearing and coverage ratios.

LIQUIDITY POSITION

The firm has comfortable liquidity profile, driven by current ratio of 2.54 times in FY18 and average CC Utilization for the six months as per the banker feedback stands between 60% to 70%.

FIRM PROFILE

Rami Reddy Agro Industry ('RRAI' or 'the firm'), was established in January 2005 as a partnership firm, in Vedurupaka Savaram village, Rayavaram mandal, East Godavari district, Andhra Pradesh. RRAI is engaged in the milling of paddy to raw rice and boiled rice with by-products like husk, rice bran, broken rice and others.

Shri. S Veerabhadra Reddy is the Managing Partner. Shri. Rami Reddy, Shri. N Brahma Reddy, Shri. S Veerabhadrudu, Shri. S Konda Reddy, Shri. S Satyanarayana Reddy, Shri. N Nagi Reddy, Shri. K Chirangeevi Reddy and Smt. N Mahalakshmi are the other partners.

KEY FINANCIAL INDICATORS (in ₹ Cr)

Key Parameters	Units	FY18	FY17
		Audited	Audited
Net Sales	Rs In Crores	54.04	40.92
EBITDA	Rs In Crores	1.53	1.31
PAT	Rs In Crores	0.28	0.22
Tangible Net-worth	Rs In Crores	6.89	6.61
Total Debt/Tangible Net-worth	In Times	0.52	0.75
Current Ratio	In Times	2.54	2.34

KEY COVENANTS OF THE INSTRUMENT/FACILITY RATED :NA
NON-COOPERATION WITH PREVIOUS RATING AGENCY IF ANY : NA

RATING HISTORY

Facilities	Current Rating			Rating History		
	Tenure	Amount (₹ Cr)	Rating	30.8.2018	16.10.2017	26.9.2016
Open Cash Credit	Long Term	14.00	BWR BB+ (Outlook: Stable) [Reaffirmed]	BWR BB+ (Outlook: Stable)	BWR BB (Outlook: Stable)	
Bank Guarantee (Sublimit within the OCC Limit)	Short Term	(2.00)	BWR A4	BWR A4	BWR A4	
Total		14.00	INR Fourteen Crores Only			

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](#)

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Rami Reddy Agro Industry

ANNEXURE I

Details of Bank Facilities rated by BWR

Sl. No.	Name of the Bank	Type of Facilities	Long Term (₹ Cr)	Short Term (₹ Cr)	Total (₹ Cr)
1	Andhra Bank	Open cash Credit	14.00	0.00	14.00
2		Bank Guarantee (Sublimit within the OCC Limit)	0.00	(2.00)	(2.00)
TOTAL					14.00

Total Rupees Fourteen Crores only.

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