Rating Rationale

7 Oct 2020

SRI RUDRA ENTERPRISES

Brickwork Ratings reaffirms the ratings for the bank loan facilities of Rs. 9.00 Crore of Sri Rudra Enterprises (SRE or 'the Firm')

Particulars

Facilities#	Amount (Rs. Crs)		Tenure	Rating[1]	
	Previous	Present		Previous^	Present
Fund Based Open Cash Credit	12.00	9.00	Long Term	**BWR B-/Stable Assigned**	**BWR B-/Stable Reaffirm**
Total	**12.00**	**Rs. 9.00 Crore (Rupees Nine Crores Only)**			

BG is the sub limit under OCC
**Issuer Not Cooperating: Based on best available information*
^Not Reviewed (Advisory) the outstanding rating of BWR B- (Stable) on 24th September 2020.
1 Please refer to BWR website www.brickworkratings.com/ for definition of the ratings
Note: Details of Bank facilities are provided in Annexure I

Ratings Action/Outlook

BWR has reaffirmed the rating based on the experienced partner, on a provisional basis, improvement in the revenue, moderate debt service coverage metrics and locational advantage. However, the rating is constrained by the small scale of operations and low profitability margins, below average capital, inadequate liquidity position, susceptibility to risks inherent in the agro based commodities, constitution as a partnership entity and working capital intensive nature of operations.

The 'Stable' outlook indicates a low likelihood of rating change over the medium term. BWR expects that **Sri Rudra Enterprises'** business risk profile will be maintained over the medium term. The outlook may be revised to 'Positive' if the entity records significantly better-than-expected revenue and profitability and improved working capital management, resulting in better debt coverage metrics and liquidity profile. The outlook may be revised to 'Negative' if the entity reports significantly lower than expected performance, resulting in lower than estimated coverage indicators, and a weaker liquidity position. Further, any major debt-funded expenditure resulting in deterioration in capital structure and debt coverage indicators and/or a sharp reversal in industry operating conditions may exert a downward pressure on the rating.

Key Rating Drivers

Credit Strengths:

- **Experienced partner:** The partner has experienced in paddy processing and trading, which has helped them to understand local market dynamics and establish relationships with customers and suppliers
- **Moderate debt service coverage metrics:** Debt service coverage metrics are moderate with interest service coverage ratio and debt service coverage ratio were around 1.47 times and 2.11 times respectively as on 31st March 2019.
- **Locational advantages:** The processing unit is located at East Godavari, Andhra Pradesh and is close to the paddy growing belt in Andhra Pradesh, which ensures availability of raw material (Paddy) directly from farmers and it incurs lower transport costs.

Credit Challenges:

- **Small scale of revenue and low profitability margins:** Revenue small at Rs 7.33 Crs for FY19 . On a provisional basis, the firm has reported the revenue of Rs. 12.92 Crs for FY20. Operating profit margin and net profit margin were low at 1.28% and 0.97% respectively for FY19.
- **Agro-based commodities:** Since paddy and its by product of rice bran is an agricultural commodity, its yield depends on the vagaries of the monsoon. It is exposed to inherent price fluctuation risk associated with agro-based commodities. The Covid 19 outbreak may also constrain the regular business.
- **Constitution of the entity:** Constitution as a partnership firm has the inherent risk of a possible withdrawal of the capital by partners which can adversely affect its capital structure.

Analytical Approach and Applicable Rating Criteria

As it is an entity, a standalone approach has been adopted and BWR has applied its rating methodology as detailed in the Rating Criteria detailed below (hyperlinks provided at the end of this rationale).

Rating Sensitivities

The ability of the entity to increase revenues, improve its profitability margins, strengthen its credit risk profile and manage its working capital efficiently would remain the key rating sensitivities.

Positive:

- Sustained improvement in scale of operations with improved profitability margins, capital structure and improvement in the liquidity position.
- Specific credit metrics that could lead to an upgrade of the firm's rating include (1) Total Debt/Partners's capital 1.0 time on a continuous basis, (2) DSCR and ISCR greater than 3.0 times on a continuous basis.

Negative:

- Specific credit metrics that could lead to a downgrade if there is a decline in profitability margins,Total Debt/Partners's capital exceeding 2.00 times and weakening in debt protection metrics with DSCR and ISCR declining below 1.00 times.

- The Covid 19 outbreak may also constrain the regular business also.

Liquidity Position: Stressed

- The current ratio was stressed at 0.79 times and net cash accruals are expected low around at Rs.0.07 crore as on 31 Mar 2019. Though the working capital facilities were utilised around 22% over the last one year, which gives a moderate cushion on its liquidity position.

About the Firm

Sri Rudra Enterprises (SRE) was established in October 2018, Mandapeta, Kakinada, Andhra Pradesh. The firm commercial operations commenced in November 2018. The firm has taken a manufacturing plant on lease basis from the Ashta Lakshmi Rice Industry. The firm closed its operations and let it out to the Sri Rudra Enterprises. SRE procures paddy from the farmers and commission agents and engaged in the rice processing (raw and parboiled rice) and trading. The installed capacity of the firm is 8 tonnes per hour and average utilization is more than 70% of the capacity. The firm undertakes job work for FCI under the Customs Milled Rice (CMR) scheme.

K Sri Tulasi is the managing partner and others are the partners of the firm.

Key Financial Indicators

Key Parameters	**Units**	**31 Mar 2018**	**31 Mar 2019**
Result Type		**Audited**	**Audited**
Operating Revenue	Rs. Cr	-	7.33
EBITDA	Rs. Cr	-	0.09
Profit After Tax	Rs. Cr	-	0.07
Partners Capital	Rs. Cr	-	1.18
Total Debt/Partners Capital	Times	-	0.38
Current Ratio	Times	-	0.79

Key Covenants of the facility rated: The terms of sanction include standard covenants normally stipulated for such facilities.

Status of non-cooperation with previous CRA – NA

RATING HISTORY FOR THE LAST THREE YEARS (Including Withdrawn/Suspended)

Sl. No	Facilities	Current Rating (2020)			Rating History		
		Type	Amount (Rs. Cr)	Rating	2019 *[May 21, 2019]*	2018	2017
1	Open Cash Credit	Long Term	9.00	**BWR B-/Stable Reaffirm**	**BWR B/Stable Assigned**	-	-
Total			**Rs. 9.00 Crore (Rupees Nine Crores Only)**				

^Not Reviewed (Advisory) the outstanding rating of BWR B- (Stable) on 24th September 2020.
BG is the sub limit under OCC

Existing Rating From any other CRA: NA

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**

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Sri Rudra Enterprises

Annexure I: Details of Bank Facilities rated

Sl. No.	Name of the Bank	Type of Facilities	Long Term (Rs. Cr)	Short Term (Rs. Cr)	Total (Rs. Cr)
1.	Union Bank of India (Andhra Bank), Ramavaram Branch, East Godavari, Andhra Pradesh.	Open Cash Credit	9.00	-	9.00
TOTAL - Rupees Nine Crores Only					**9.00**

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