



RATING RATIONALE

29 Nov 2019

Sri Venkatarathna Industries

Brickwork Ratings upgrades the ratings for the Bank Loan Facilities of ₹12.00 Crores of Sri Venkatarathna Industries.

Particulars:

Facility**	Amount (₹ Cr)		Tenure	Rating*	
	Previous	Present		Previous (Apr, 2018)	Present
Fund Based	16.85	12.00	Long Term	BWR B+/Stable	BWR BB-/Stable (Upgrade)
Total	16.85	12.00	INR Twelve Crores Only		

Note: Moved to Rating Not Reviewed on Jul 15, 2019

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

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

RATING ACTION

Brickwork Ratings has upgraded the rating of **Sri Venkatarathna Industries** to BWR BB-/Stable to the bank loan facilities of Rs.12.00 Crs.

The rating upgrade is on account of firm's established presence in the rice industry, experienced partner for more than two decades in the rice milling business, moderate interest coverage ratio, comfortable liquidity position and locational advantage. The rating, however, is constrained by the decline in revenue, susceptibility of profit margins to the volatile raw material prices, high gearing ratio, inherent risk of the constitution of firm being partnership, working capital intensive nature of operations, cyclical nature of industry and high competition.

OUTLOOK:

Rice is consumed in large quantities in India which provides favorable opportunity for the rice millers and thus the demand is expected to remain healthy over medium to long term. Initiatives taken by the 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. The ratings have been continued with 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.

KEY RATING DRIVERS

BWR principally relied upon audited financials upto FY19, publicly available information and information/clarification provided by the management.

Credit Strengths:

- Established track record in the business as the firm is active since 2013
- Mr. C. Ramakrishna, partner of the firm is having more than 25 years of experience in the rice industry, which has helped them to understand local market dynamics and establish relationships with customers and suppliers which will benefit the firm over the medium term
- The firm is able to meet its interest obligations from its operating profit, indicated by moderate ISCR which stood at 1.31x in FY19
- The current ratio of the firm as per FY19 (Audited) stands at 1.56 times, which indicates that the firm has enough short term assets to meet its short term liabilities
- The firm's rice milling unit is located in Raichur, a paddy growing belt of Karnataka, which ensures easy raw material access and smooth supply of raw materials at competitive prices.

Credit Risks:

- 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 expected to remain modest. TOI has declined in FY19 to Rs.23.19Cr from Rs.26.29 Crs in FY18.
- The entity has modest capital structure indicated by tangible net-worth level which stood at Rs. 2.47 Crs in FY19.
- 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 firm being a partnership concern, is exposed to an inherent risk of the capital being withdrawn at the time of personal exigencies which will affect its capital structure and the business operations.

ANALYTICAL APPROACH AND APPLICABLE RATING CRITERIA

For arriving at its ratings, BWR has considered the standalone performance of **Sri Venkatarathna Industries**. 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 revenue and profitability margins and efficiently manage industry risk would remain the key rating sensitivities.

Positive: The rating outlook may be revised to 'Positive' in case the revenues and profit show sustained improvement with an improvement in the overall credit metrics will be positive for the ratings.

Negative: The rating outlook may be revised to 'Negative' 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 1.56 times in FY19.

FIRM PROFILE

Sri Venkatarathna Industries is a Raichur, Karnataka based partnership firm established in 2013. Mr. C. Ramakrishna is the Managing Partner and Mrs. C. Mangadevi is the other partner. The firm is engaged in processing of paddy into rice, broken rice and rice bran. The firm sells its rice under the brands 'SVR', 'Mahabharat', 'VK Gold' and 'Suravi Gold'.

KEY FINANCIAL INDICATORS (in ₹ Cr)

Key Parameters	Units	FY18	FY19
		Audited	Audited
Total Operating Income	Rs In Crores	26.29	23.19
EBITDA	Rs In Crores	2.12	2.20
PAT	Rs In Crores	0.13	0.08
Tangible Net-worth	Rs In Crores	2.24	2.47
Total Debt/Tangible Net-worth	In Times	7.97	6.02
Current Ratio	In Times	1.37	1.56

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	15.7.2019	12.4.2018	2017
Fund Based	Long Term	12.00	BWR BB-/Stable (Upgrade)	Rating Not Reviewed	BWR B+/Stable	-
Total		12.00	INR Twelve 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](#)

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Sri Venkatarathna Industries

ANNEXURE I

Details of Bank Facilities rated by BWR

Name of the Bank	Type of Facilities	Long Term (₹ Cr)	Short Term (₹ Cr)	Total (₹ Cr)
Andhra Bank	Cash Credit	12.00	-	12.00
TOTAL				12.00

Total Rupees Twelve Crores only.

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