January 08, 2021

Ganesh Grains Limited: Ratings upgraded to [ICRA]A+ (Stable)/[ICRA]A1 and removed from Not-cooperating category; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based – Cash Credit	30.00	40.00	[ICRA]A+ (Stable); upgraded from [ICRA]BBB (Stable) ISSUER NOT COOPERATING and removed from the 'ISSUER NOT COOPERATING' category
Fund-based – Term Loan	-	24.00	[ICRA]A+ (Stable); upgraded from [ICRA]BBB (Stable) ISSUER NOT COOPERATING and removed from the 'ISSUER NOT COOPERATING' category
Non-fund-based limit	20.00	30.00	[ICRA]A+ (Stable)/[ICRA]A1; upgraded from [ICRA]BBB (Stable)/[ICRA]A3+ ISSUER NOT COOPERATING and removed from the 'ISSUER NOT COOPERATING' category
Unallocated Limits	25.00	-	
Total	**75.00**	**94.00**	

**Instrument details are provided in Annexure-1*

Rationale

The upgrade in the ratings primarily considers the improved share of sales to the business-to-consumer (B2C) segment and reduced trading operation, which led to an improvement in the company's margins in FY2020. The ratings also note the backward integration for manufacturing of sooji (semolina), which is likely to enhance value addition and the plan to enter the spices segment, which is likely to diversify the product profile of Ganesh Grains Limited (GGL) further in the near to medium term. ICRA notes that the operating margin of GGL is expected to improve in the current fiscal, aided by a rise in prices of the company's products amid the Covid-19 pandemic despite a decline in raw material prices in H1 FY2021 and reduced fixed costs through consolidation of existing facilities. The ratings continue to derive comfort from the extensive experience of the promoters and GGL's established market position in West Bengal. The company is a leading player in the packaged wheat and chana products in West Bengal with a well-established brand, Ganesh. The ratings also factor in GGL's conservative capital structure, healthy coverage indicators and a strong liquidity position. While GGL enjoys a significant price premium over the unorganised players in the B2C segment, intense competition from large organised players limits the pricing flexibility to an extent. Nevertheless, stable demand from staple food grains market and strong distribution network are likely to support its revenue growth.

The ratings are, however, constrained by the share buyback of Rs. 39.12 crore in September 2020, depleting the free cash and liquid investments of the company. ICRA notes that GGL has undertaken a capex programme for backward integration in sooji manufacturing (around Rs. 54 crore) and production of spices (around Rs. 15 crore), being funded by a term loan of Rs. 24 crore and the balance by internal accruals. The sooji and spices facilities are expected to be commissioned in H1 FY2022 and H2 FY2022, respectively. Timely commencement of the facilities and stabilisation of the plants would remain critical to build up of sales from the new facilities. The ratings further consider the high geographical concentration risk as around 75% of the company's turnover in FY2020 and H1 FY2021 was derived from West Bengal. Additionally, the ratings consider the inherent susceptibility of the company's operations and margins to the prevailing agro-climatic conditions and changes in Government policies.

The Stable outlook reflects ICRA's expectation that GGL will continue to benefit from the established brand presence of Ganesh, particularly in West Bengal, and the planned product diversification and value addition initiatives, which are likely to support revenue growth and profitability, going forward.

Key rating drivers and their description

Credit strengths

Extensive experience of promoters and strong brand presence in West Bengal – GGL was set up as a proprietorship firm in 1936 and has been involved in the manufacturing of wheat and chana-based products for over eight decades. Over the years, GGL's brand, Ganesh, has been able to establish a strong presence in West Bengal with the company holding a considerable market share in the packaged wheat and chana products segment in the state. The company offers a wide range of products such as atta (whole wheat flour), besan (gram flour), maida (refined wheat flour), sattu (roasted gram flour), sooji (semolina), dalia (porridge), instant mixes and cereals.

Improved profitability in FY2020, which is likely to sustain in the near to medium term – Reduced share of trading sales and increased proportion of sales to the B2C segment in FY2020 led to an increase in the operating profit margin of GGL to 8.31% in FY2020 from 6.05% in FY2019. Higher operating margins are expected to sustain in the near term given the increase in prices of the company's products in H1 FY2021, despite a decline in raw material prices, aided by increased preference of consumers for packaged foods amid the Covid-19 pandemic. Moreover, an expected improvement in value addition post commencement of the own sooji manufacturing facilities and consolidation of the existing facilities, leading to a reduction in the overhead expenses in three units (out of eight units) undergoing diversification, are likely to support profitability in the medium term.

Conservative capital structure and strong debt coverage indicators – Low debt as on March 31, 2020 along with a healthy net worth led to a conservative capital structure of the company with a low gearing of 0.01 times in FY2020. Although, an additional term loan of Rs. 24.00 crore is being availed for the ongoing capex, GGL's capital structure is likely to remain conservative given the healthy net worth and sizeable accretion to reserves. The company's healthy profits at an absolute level along with a low debt level also led to strong debt protection metrics, reflected by an interest coverage of 30.9 times, total debt relative to OPBDITA of 0.04 times and net cash accrual relative to total debt of 1,790% in FY2020.

Significant price premium over unorganised players in B2C sales, however, competition from other established brands limits pricing flexibility to some extent – GGL enjoys a significant price premium over the unorganised players in the B2C sales by virtue of its superior quality and established brand position. However, the company operates in an intensely competitive and fragmented industry and faces stiff competition from large organised players, which limits the pricing flexibility to some extent.

Stable demand from staple food grains market; strong distribution network in West Bengal – GGL's market is extremely fragmented, however, the demand is stable with all its products forming essential constituents of the consumers' daily diet. It has built a strong marketing and distribution network in West Bengal, facilitating the company's sales. As GGL sells through direct distributors, sub-distributors, super stockists, wholesale stockists and online sales channels, its customer concentration risk remains on the lower side with the top 10 customers contributing around 22% to the sales in FY2020. It has a strong distribution network of around 200 distributors, sub-distributors, stockists and super stockists.

Credit challenges

Significant amount of share buyback in H1FY2021 depleting the cash and liquid investments – The company bought back 17.13 lakh equity shares in September 2020, entailing a cash outlay of Rs. 39.12 crore (inclusive of Rs. 6.56 crore of tax). This led to a significant reduction in cash and liquid investments of the company.

Sizeable ongoing capital expenditure; timely commissioning and plant stabilisation would remain critical for sales build-up from the new facilities – The company is setting up two sooji manufacturing plants – one in West Bengal and one in Uttar Pradesh and a spice manufacturing plant in West Bengal. The sooji facilities are expected to commence operations from May/June 2021 and the spice manufacturing facility is expected to be commissioned in H2 FY2022. While the estimated capital expenditure for the sooji plants is around Rs. 54 crore, the planned capital expenditure for spice manufacturing plant is around Rs. 15 crore. A large portion of the capital expenditure (around Rs. 55 crore) is likely to be incurred in FY2021 and around Rs. 20 crore out of the same has been incurred till November 2020. A term loan of Rs. 24 crore has been sanctioned for the planned capital expenditure and the balance is likely to be met from internal accruals. ICRA notes that timely commissioning and stabilisation of the plants would remain critical for sales build-up from the new facilities and to derive the estimated cost benefits from the sooji facilities.

Regional presence gives rise to geographical concentration risks – GGL has a strong regional presence with a healthy market share in West Bengal. The state accounted for around 75% of GGL's total sales in FY2020 and in H1 FY2021, reflecting geographical concentration risks. However, the company plans to increase its presence in other states of the eastern region, going forward.

Exposure to agro-climatic risks and changes in Government regulations – Given it operates in an agro-based industry, GGL remains exposed to agro-climatic risks such as raw material availability, quality and pricing. Moreover, any change in Government regulations pertaining to the industry can also have a bearing on the performance of all players in the industry, including GGL.

Liquidity position: Strong

GGL's liquidity position is **strong** with a healthy cash flow from operations (Rs. 48.76 crore in FY2020) and a significant cushion in working capital limit utilisation, as reflected by an undrawn fund-based working capital limit of ~Rs. 30 crore on March 31, 2020. The company had a significant free cash and liquid investments of around Rs. 43 crore as on March 31, 2020. However, reduction in free cash and liquid investments due to the sizeable amount of share buyback (Rs. 39.21 crore including tax of Rs. 6.56 crore) in September 2020 and the significant ongoing capital expenditure are likely to have a bearing on the liquidity position to an extent. Nevertheless, expected release of the major portion of loans and advances given to related parties, which stood at Rs. 28.85 crore as on March 31, 2020 along with healthy fund flow from operations vis-a-vis moderate long-term debt repayment obligation (Rs. 2.34 crore in FY2021 and Rs. 6.24 crore in FY2022 and FY2023 each) are likely to support GGL's liquidity position.

Rating sensitivities

Positive triggers – ICRA could upgrade GGL's ratings if the company demonstrates a significant top line growth and maintains operating margins at a comfortable level.

Negative triggers – Significantly lower-than-expected turnover and/or margins may lead to ratings downgrade. Besides, a deterioration in liquidity position due to higher-than-expected debt-funded capital expenditure or any further sizeable upstreaming of cash to the shareholders (in the form of dividend, share buyback, bonus share issue etc.) may trigger ratings downgrade.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not Applicable
Consolidation / Standalone	Consolidated financials of Ganesh Grains Limited (GGL) and its erstwhile subsidiaries – Shree Venkatesh Agro Foods Private Limited (SVAPL) and Gobardhan Agri Flour Mills Private Limited (GAFMPL) have been considered up to FY2019, however, SVAPL and GAFMPL were merged with GGL in FY2020.

About the company

GGL, promoted by the Kolkata-based Mimani family, is involved in manufacturing and sales of agro-based products like wheat flour (atta, sooji, maida, dalia), gram flour (besan, sattu) and instant mixes. The company markets its products under the Ganesh brand, which has an established presence in West Bengal.

MOPE Investment Advisors Pvt. Ltd. (MOPE), the private equity arm of Motilal Oswal Financial Services Ltd., acquired 25.71% equity shares in GGL in October 2016.

GGL's erstwhile wholly-owned subsidiaries, Shree Venkatesh Agro Foods Private Limited and Gobardhan Agri Flour Mills Private Limited, which are involved in the similar line of business, have been merged with GGL in FY2020.

Key financial indicators

	FY2019	FY2020 (provisional)
Operating Income (Rs. crore)	476.57	499.12
PAT (Rs. crore)	10.71	24.92
OPBDIT/OI (%)	6.05%	8.31%
PAT/OI (%)	2.25%	4.99%
Total Outside Liabilities/Tangible Net Worth (times)	0.16	0.21
Total Debt/OPBDIT (times)	0.33	0.04
Interest Coverage (times)	25.96	30.98

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument				Current Rating	Earlier Rating	Rating History for the Past 3 Years		
		Type	Amount Rated	Amount Outstanding	FY2021	FY2021	FY2020	FY2019	FY2018
					Jan-8-2021	Aug-28-2020	-	Feb-26-2019	-
1	Fund based-Cash Credit	Long Term	40.00	-	[ICRA]A+ (Stable)	[ICRA]BBB (Stable) ISSUER NOT COOPERATING	-	[ICRA]A (Stable)	-
2	Fund based – Term Loan	Long Term	24.00	11.70 as on September 30, 2020	[ICRA]A+ (Stable)	[ICRA]BBB (Stable) ISSUER NOT COOPERATING	-	[ICRA]A (Stable)	-
3	Non-fund based	Long Term / Short Term	30.00	-	[ICRA]A+ (Stable)/ [ICRA]A1	[ICRA]BBB (Stable)/[ICRA]A3+ ISSUER NOT COOPERATING	-	[ICRA]A (Stable)/[ICRA]A1	-
4	Unallocated Limits	Long Term / Short Term	-	-	-	[ICRA]BBB (Stable)/[ICRA]A3+ ISSUER NOT COOPERATING	-	[ICRA]A (Stable)/[ICRA]A1	

Amount in Rs. crore

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash credit	NA	NA	NA	40.00	[ICRA]A+ (Stable)
NA	Term loan	July-17-2020	NA	Sep-2024	24.00	[ICRA]A+ (Stable)
NA	Non-fund based	NA	NA	NA	30.00	[ICRA]A+ (Stable)/ [ICRA]A1

Source: Ganesh Grains Limited

Annexure-2: List of entities considered for consolidated analysis:

Company Name	Ownership	Consolidation Approach
Sri Venkatesh Agro Foods Private Limited (SVAFPL)*	100%	Full Consolidation
Gobardhan Agri Flour Mills Private Limited (GAFMPL)*	100%	Full Consolidation

**Consolidated financials of GGL along with SVAFPL and GAFMPL have been considered up to FY2019, however, SVAFPL and GAFMPL were merged with GGL in FY2020*

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About ICRA Limited:

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