February 28, 2022

Ganesh Grains Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Cash Credit	40.00	40.00	[ICRA]A+ (Stable); reaffirmed
Long-term Fund-based – Term Loans	24.00	18.00	[ICRA]A+ (Stable); reaffirmed
Long-term/Short-term Non-Fund-based – Bank Guarantee	27.75	30.00	[ICRA]A+ (Stable)/[ICRA]A1; reaffirmed
Long-term/Short-term Non-Fund-based – Letter of Credit	2.25	-	-
Total	**94.00**	**88.00**	

**Instrument details are provided in Annexure-1*

Rationale

The reaffirmation of the ratings considers the established position of Ganesh Grains Limited (GGL, or the company) as one of the major manufacturers of wheat and chana-based products with a strong presence in West Bengal under the Ganesh brand. GGL has a considerable market share in the packaged wheat and chana products segment in the state. Gain in the share of sales to the business-to-consumer (B2C) segment, which fetches higher margin than the business-to-business (B2B) segment, along with an increase in sales realisation of all the major products, led to a further improvement in the company's margins in FY2021. GGL's operating margin in the current fiscal is likely to remain at a similar level as that of FY2021 as the company has posted an OPM of ~11% in H1 FY2022 (provisional). The ratings also note the ongoing capex undertaken by the company for manufacturing of sooji (semolina) and spices, which post successful commissioning, will lead to product diversification and have a positive impact on the company's operating margin. The company also intends to enter the packaged pulses segment from FY2023, which would provide further product diversification. The ratings also factor in GGL's conservative capital structure and healthy coverage indicators despite marginal moderation in FY2021 owing to the ongoing debt-funded capex undertaken by the company. 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 high geographical concentration risk as around 80-85% of the company's turnover in FY2021 and H1 FY2022 was derived from West Bengal. ICRA notes that GGL's ongoing capex programme for setting up sooji and spice manufacturing facilities has witnessed a time and cost overrun of around 6-7 months and around Rs. 13-14 crore, respectively, primarily due to various Covid-19 related challenges and addition/ increase in certain project costs, which were not envisaged initially. All the facilities are at an advanced stage of completion and are expected to be commissioned in H1 FY2023. Commissioning and stabilisation of the facilities without any further delay would remain critical to build up sales from the new facilities. 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 FY2021, which is likely to sustain in the near-to-medium term – Increased proportion of sales to the B2C segment, which fetches higher margin than the B2B segment, coupled with increase in sales realisation of all the major products in FY2021 led to an increase in the operating profit margin of GGL to 10.7% in FY2021 from 8.3% in FY2020. The operating margin in the current fiscal is also expected to remain at a level similar to that of FY2021, given the increase in sales to the B2C segment in the total sales portfolio, where margins are relatively higher, and the management's focus to build Ganesh a household brand. The company has already posted an OPM of ~11% in H1 FY2022 (provisional) vis-a-vis 10.7% in FY2021. Moreover, an expected improvement in value addition post commencement of the 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; likely to sustain in the near to medium term – The overall debt level of the company increased to Rs. 39.4 crore as on March 31, 2021 from Rs. 1.8 crore as on March 31, 2020. This was mainly due to the long-term debt undertaken for the ongoing capex for setting up the sooji and spices plant and also due to an increase in the working capital borrowing to part-fund the increased level of inventory. Nevertheless, the capital structure remained comfortable with an overall gearing of 0.2 times as on March 31, 2021 (0.0 times as on March 31, 2020). GGL's capital structure, going forward, 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 moderate debt level led to strong debt protection metrics, reflected by an interest coverage of 29.7 times, total debt relative to OPBDITA of 0.7 times and net cash accrual relative to total debt of 102% in FY2021, though moderated marginally compared to 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 20% to the sales in FY2021. It has a strong distribution network of around 600 distributors, sub-distributors, stockists and super stockists.

Credit challenges

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 April/May 2022 and the spice manufacturing facility is expected to be commissioned in June 2022. ICRA notes that there has been a time overrun of 6-7 months in both the projects on account of the pandemic-related challenges. Also, the sooji project witnessed a cost overrun of around Rs. 7 crore (from Rs. 54.0 crore to Rs. 61.0 crore) while the spices project witnessed a cost overrun of around Rs. 6 crore (from Rs. 15.0 crore to Rs. 21.0 crore) owing to increase in certain costs, which were not envisaged during the initial stage of the capex. GGL has incurred a cost of Rs. 56 crore approximately towards the sooji plant and Rs. 14 crore approximately towards the spices plant till December 31, 2021, which was funded through term loan of Rs. 22 crore and the balance through internal accruals. Further, GGL has received sanction of one-time short term loan of Rs. 10.0 crore, which is likely to be disbursed by March 2022 for the spices plant. 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 81% and 85% of GGL's total sales in FY2021 and in H1 FY2022 respectively, 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 – As it operates in an agro-based industry, GGL remains exposed to agro-climatic risks such as raw material availability, quality and pricing. Moreover, any changes 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: Adequate

GGL's liquidity profile remains adequate, marked by healthy fund flow from operations of ~ Rs. 39 crore in FY2021 and a significant cushion in the working capital limit, as reflected by an undrawn fund-based working capital limit of Rs. 30 crore and Rs. 40 crore, as on March 21, 2021 and October 31, 2021 respectively. Cash flow from operations turned negative in FY2021 due to a significant increase in the inventory holding. Significant amount of share buyback in FY2021 led to a decline in cash and liquid investments to Rs. 11.0 crore as on March 31, 2021 from Rs. 44.8 crore as on March 31, 2020. Going forward, expected release of the major portion of loans and advances given to related parties, which stood at Rs. 29.16 crore as on March 31, 2021, healthy fund flow from operations and likely reduction in the inventory level are likely to support GGL's liquidity position. The long-term debt repayment obligation (Rs. 5.97 crore in FY2022, Rs. 15.97 crore in FY2023 and Rs. 5.97 crore in FY2024) also remains modest, lending support to GGL's cash flow.

Rating sensitivities

Positive factors – ICRA could upgrade GGL's ratings if the company demonstrates a significant growth in top line and profitability on the back of better business diversification.

Negative factors – A significant decline in the turnover and/or margins may lead to a downgrade of ratings. Besides, any material time and cost overrun in commissioning of the ongoing projects may trigger ratings downgrade. Any significant deterioration in liquidity position due to any further sizeable upstreaming of cash to the shareholders may also trigger ratings downgrade.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not Applicable
Consolidation/Standalone	Standalone

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 a 25.71% equity share 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 (audited)

GGL Standalone	FY2020	FY2021
Operating Income (Rs. crore)	499.1	491.0
PAT (Rs. crore)	25.0	29.3
OPBDIT/OI (%)	8.3%	10.7%
PAT/OI (%)	5.0%	6.0%
Total Outside Liabilities/Tangible Net Worth (times)	0.2	0.4
Total Debt/OPBDIT (times)	0.0	0.7
Interest Coverage (times)	31.0	29.7

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Status of non-cooperation with previous CRA:

CRA	Status	Date of Release
CARE	CARE BB; Stable; CARE A4; ISSUER NOT COOPERATING	September 24, 2021
ACUITE	ACUITE BB (Downgraded from ACUITE BB+); ACUITE A4+; Issuer not co-operating	February 16, 2021

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Dec 31, 2021 (Rs. crore)	Date & Rating in	Date & Rating in FY2021		Date & Rating in FY2020	Date & Rating in FY2019
					Feb 28, 2022	Jan 08, 2021	Aug 28, 2020	--	Feb 26, 2019
1	Fund based -Cash Credit	Long-term	40.00	--	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]BBB (Stable) ISSUER NOT COOPERATING	--	[ICRA]A (Stable)
2	Fund Based -Term Loans	Long-term	18.00	14.92	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]BBB (Stable) ISSUER NOT COOPERATING	--	[ICRA]A (Stable)
3	Non-Fund based	Long-term and short term	30.00	--	[ICRA]A+ (Stable)/ [ICRA]A1	[ICRA]A+ (Stable)/ [ICRA]A1	[ICRA]BBB (Stable)/[ICRA] A3+ ISSUER NOT COOPERATING	--	[ICRA]A (Stable)/ [ICRA]A1

4	Unallocated Limits	Long-term and short term	-	--	--	--	**[ICRA]BBB (Stable)/[ICRA] A3+ ISSUER NOT COOPERATING**	--	**[ICRA]A (Stable)/ [ICRA]A1**

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term Fund-based – Cash Credit	Simple
Long-term Fund-based – Term Loans	Simple
Long-term/ Short -term Non-Fund Based – Bank Guarantee	Very Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analyzing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, is available on ICRA’s website: www.icra.in

Annexure-1: Instrument details

ISIN No.	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (RS Crore)	Current Rating and Outlook
	Cash Credit	NA	NA	NA	40.00	[ICRA]A+ (Stable)
	Term Loans	July, 2020	NA	September, 2024	18.00	[ICRA]A+ (Stable)
	Non-fund based	NA	NA	NA	30.00	[ICRA]A+ (Stable)/[ICRA]A1

Source: *Company*

Please click here to view details of lender-wise facilities rated by ICRA

Annexure-2: List of entities considered for consolidated analysis: Not Applicable

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

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