May 18, 2023

Farm India Impex Private Limited: [ICRA]BBB-(Stable)/ [ICRA]A3; assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long Term-Fund Based – Cash Credit	41.00	[ICRA]BBB-(Stable); assigned
Short Term- Non-Fund based – Letter of Credit	37.00	[ICRA]A3; assigned
Long Term – Unallocated	2.00	[ICRA]BBB-(Stable); assigned
Total	80.00	

**Instrument details are provided in Annexure-1.*

Rationale

The assigned ratings consider the extensive experience of Farm India Impex Private Limited's (FIIPL) promoters in the agricultural commodities trading business for around four decades, which supports its growth prospects. The company has a long track record of business and has a strong relationship with its customers and suppliers, which led to repeat orders over the years. The ratings are also supported by the company's large scale of operations with a diversified revenue base, comfortable capital structure and healthy debt protection metrics. Moreover, the ratings derive comfort from the company's comfortable liquidity position, supported by its adequate free cash and bank balances and moderate utilisation of working capital limits.

The ratings, however, are constrained by the intense competition in the low value-additive trading business, which led to thin profit margins. As the company deals in agricultural commodities, its operations remain susceptible to the changes in Government policies, regulations of various countries concerning imports of different commodities as well as the vagaries of agro-climatic conditions. The ratings also factor in the vulnerability of profitability to foreign exchange fluctuations and volatility in the prices of commodities. Nevertheless, FIIPL's risk mitigation policies on foreign exchange movements and price volatility mitigate the risks to an extent.

The Stable outlook on the long-term rating reflects ICRA's opinion that the company will continue to benefit from the management's extensive experience, which will support its steady revenue growth and stable profitability, while maintaining comfortable debt protection metrics.

Key rating drivers and their description

Credit strengths

Extensive experience of promoters in trading of agro-commodities – The company is fully owned by Bengaluru-based Mr. Kanhaiyalal Agarwal and his family members, who have an extensive experience of around four decades in various agro-based commodities trading, both in domestic as well as international markets. Mr. Kanhaiyalal Agarwal along with his two brothers, commenced this line of business in 1983, which has now been divided among three families. Over the years, the company has expanded its product profile, which supported its growth.

Established relationship with a diversified customer and supplier base – The company has a diversified and established customer base with most of its clients being established players in the business of agro-processing and poultry feed operations. The top 10 customers of the company accounted for ~61% of the total sales in FY2022. The company also has a wide supplier base with the top 10 suppliers accounting for ~59% of the total purchases in FY2022. The company has developed strong relationship with its suppliers and customers, which resulted in repeat orders.

Healthy scale and a diversified revenue base – FIIPL's revenue stream is diversified, given its presence in both domestic and export markets, which reduces the geographical concentration. The company also has a diversified product portfolio of grains such as maize, soya de oiled cake (DOC), wheat, soya beans, DOC rapeseed, bajra, de oiled rice bran, DOC mustard etc., which mitigates the product concentration risk to a certain extent. However, most of the company's revenue is generated from maize and soya DOC, which exposes the company to the associated cyclicality in the agri-business.

Comfortable capital structure and healthy debt protection metrics – The company's reliance on external debt is limited, as reflected by low interest cost during the past years. The company utilises its accruals and balances before tapping its bank limits, which is also for a limited period. As a result, FIIPL's capital structure remained comfortable with a gearing of 0.6 times as on March 31, 2023 (provisional) and is estimated to remain below 1.0 times in the medium term. The company's interest coverage ratio and DSCR stood at 5.8 times and 2.7 times, respectively as on March 31, 2023 (provisional). Going forward, with a conservative debt profile, the company's debt protection metrics is likely to remain healthy in the near term.

Credit challenges

Lower profit margin owing to trading nature of business – FIIPL's profit margin remains thin with an OPBDITA of 1.8% in FY2022 and 1.4% in FY2023 (provisional) owing to the trading nature of the operations and the inherent seasonality as well as volatility associated with agro-commodities. However, the interest and finance cost for the company remained low, given its limited reliance on external debt.

Intense competition limits pricing flexibility – The company faces intense competition from organised and unorganised players, given the low entry barriers in the business, limiting its pricing flexibility and bargaining power. The presence of numerous unorganised players in the agro-trading industry makes FIIPL's sales vulnerable to volatility in the prices of commodities.

Susceptible to changes in Government policies, global demand-supply situation and agro-climatic conditions – The import and export of agricultural commodities are susceptible to Government regulations. Any adverse change in import/export duties on agricultural commodities or changes in the minimum support prices may affect the product's competitiveness. Further, as a major portion of the company's revenue is generated from maize and de-oiled cake soya exports, the global demand-supply situation will have a significant impact on the business operations and financial performance of the company. As it is involved in agro-commodity trading, the company also remains exposed to agro-climatic risks, changing crop patterns and the associated cyclicality in the business.

Vulnerability of profitability to foreign exchange risk – FIIPL is a trading player and relies on imports and exports of agro-commodities. As a result, the company is exposed to foreign exchange risks. Nevertheless, the company hedges most of its foreign exchange exposure using plain-vanilla forwards, mitigating the risk to an extent.

Liquidity Position – Adequate

The liquidity of the company is adequate, which is supported by its stable cash accruals, though limited, and large buffer in its working capital limits. Further, the company maintains sizeable cash and equivalent balances, which help it in meeting any urgent fund requirement. The company's average utilisation of its working capital limits remained below 50% over the last two years. However, during the peak season of a commodity, the company utilises sanctioned fund-based working capital facilities and avails ad-hoc facility (on need basis) for executing large orders. However, the duration of working capital utilisation remains short, as per the company's policy of limited reliance on external debt and maintaining low interest cost. The company does not have any capex plan, nor does it have any plan to avail fresh term debt or working capital facility.

Rating sensitivities

Positive factors – The ratings could be upgraded in case of a significant increase in FIIPL's revenues and profitability on a sustained basis while maintaining adequate liquidity and comfortable debt coverage metrics.

Negative factors – Pressure on FIIPL's ratings could arise if there is a sharp decline in its revenues and profitability, resulting in lower cash flows and weakening of debt coverage metrics on a sustained basis. Any significant stretch in the working capital cycle, impacting the company's liquidity position, could also be a trigger for a downgrade. Specific credit metric that could result in ratings downgrade include an interest coverage of less than 4.0 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not Applicable
Consolidation/Standalone	The ratings are based on the standalone financial profile of the company

About the company

FIIPL was incorporated in 2007 by the Bengaluru-based Mr. Kanhaiyalal Agarwal and his two brothers Mr. Shiv Shankar Agarwal and Mr. Uma Shankar Agarwal, along with their family members. Earlier, the promoters were managing same line of business since 1983 through the proprietorship firm. The company trades in agro-based commodities such as various grains, pulses, oilseeds and extractions, both in domestic as well as international markets. Subsequent to a separation of business in the family, FIIPL is now owned and managed by Mr. Kanhaiyalal Agarwal along with his two sons and wife. The major part of the revenue comes from trading in maize and soya DOC. The company mainly exports maize and soya DOC to Vietnam and imports yellow peas, soya beans and soya DOC from Singapore and Australia.

Key financial indicators

	FY2021	FY2022	FY2023*
Operating Income (Rs. crore)	765.8	1,295.4	1,496.1
PAT (Rs. crore)	(2.3)	19.1	19.2
OPBDIT/OI	0.0%	1.8%	1.4%
PAT/OI	-0.3%	1.5%	1.3%
Total Outside Liabilities/Tangible Net Worth (times)	1.0	1.5	1.1
Total Debt/OPBDIT (times)	(236.2)	3.2	3.0
Interest Coverage (times)	(0.2)	11.1	5.8

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

Source: Company; ICRA Research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2024)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding crore) as on April 30, 2023	Date and Rating on	Date & Rating		
						FY2023	FY2022	FY2021
					May 18, 2023	-	-	-
1	Fund Based – Cash Credit	Long-term	41.00	-	[ICRA]BBB-(Stable)	-	-	-
2	Non-Fund based – Letter of Credit	Short-term	37.00	-	[ICRA]A3	-	-	-
3	Unallocated	Long-term	2.00	-	[ICRA]BBB-(Stable)	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based – Cash Credit	Simple
Short-term non-fund-based – Letter of Credit	Very Simple
Long-term – Unallocated	Not applicable

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 analysing 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: Click Here

Annexure-1: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Long Term-Fund Based-Cash Credit	NA	NA	NA	41.00	[ICRA]BBB-(Stable)
NA	Short Term- Non-Fund Based- Letter of Credit	NA	NA	NA	37.00	[ICRA]A3
NA	Long-term – Unallocated	NA	NA	NA	2.00	[ICRA]BBB-(Stable)

Source: *Company*

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

Annexure-II: 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.

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