June 28, 2024

Al Gyas Exports Private Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Short-term – Fund-based – Foreign Bill Discounting	100.0	100.0	[ICRA]A4+; reaffirmed
Packing Credit^	(80.0)	(80.0)	[ICRA]A4+; reaffirmed
Foreign Bill Purchase^	(35.0)	(35.0)	[ICRA]A4+; reaffirmed
Bills Discounting^	(30.0)	(30.0)	[ICRA]A4+; reaffirmed
Bank Guarantee	5.0	5.0	[ICRA]A4+; reaffirmed
Total	**105.0**	**105.0**	

**Instrument details are provided in Annexure-I, ^sublimit of Foreign Documentary Bills for Purchase/ Foreign Bill Discounting*

Rationale

The rating reaffirmation of Al Gyas Exports Private Limited (ALGEPL/the company) factors in the demonstrated track record of the company in securing orders for the export of basmati and non-basmati rice from its key customers over the past two decades. With easing of supply-side disruptions that were earlier witnessed in FY2022 that impacted the company's top-line growth, its earnings improved in FY2024, supported by favourable demand growth prospects in terms of volume and realisations, which has largely compensated for the trade restrictions imposed on the export of non-basmati rice in August 2023 (ALGEPL focused on exports of parboiled rice). The rating also factors in the company's adequate debt service coverage indicators, aided by a sizeable portion of its funding requirements met through creditors/advances from customers. However, this pushed the company's TOL/TNW to remain at an elevated level of 2.0-3.0 times over the last few years.

The rating, however, remains constrained by the thin profit margins owing to the low value addition inherent in the trading nature of the business. The company's liquidity position remains stretched, given the high inventory holding, modest internal accruals, and growing scale, leading to almost full utilisation of the working capital limits. This makes the company vulnerable to any cash flow timing mismatch arising from any unexpected event. The rating is further constrained by the high customer concentration risk, as around 60% of its revenue is generated by a single customer. Any incident leading to termination or non-renewal of the customer contract would significantly affect the company's financial risk profile. Nevertheless, ALGEPL's long relationship with this customer provides comfort to a certain extent.

The company's profit margins are likely to remain under pressure due to intense competition in the industry and potential adverse currency movements. However, its policy of hedging its forex exposure partly mitigates the risks associated with any adverse movements in exchange rates. Further, any adverse regulatory changes and/or trade policy changes that impact the export of agricultural commodities may adversely impact the business risk profile of the company.

Key rating drivers and their description

Credit strengths

Established player in agri-exports business led by experienced promoters – Established in 1995 by the Motorwala family, the company processes and exports agricultural commodities such as basmati and non-basmati rice, sugar, all-purpose flour (maida) and other products. The directors and the key management personnel are well qualified with experiences of two to three decades in trading agro products, which has helped the company establish its position in the international market.

Adequate credit profile and moderate coverage indicators – The debt coverage indicator remains adequate, aided by a sizeable portion of its funding requirements being met through creditors/advances from customers. Consequently, the company's interest cover stood at a comfortable level of 5.1 times in FY2024 and TOL/TNW improved to 2.0 times in FY2024 (against 2.4 times in FY2023).

Credit challenges

High inventory holding and thin profit margins lead to stretched liquidity – Thin profit margins, significant investments in inventory, and limited headroom in the working capital lines have strained the company's liquidity position. However, ICRA notes that faster collection of receivables (debtor days of 15 days in FY2024) and advances from customers/ creditor funding have supported its working capital requirements, somewhat moderating the working capital intensity to 7-9% in the last few years. However, given its healthy business growth over the last few years, ALGEPL's dependence on external capital to fund the same has remained high, reflected in TD/OPBITDA of 2.5 times in FY2024.

High concentration of sales to a single customer and country – The company's customer concentration remains high as a single export customer accounted for around 60% of its total revenues in FY2024. However, the risk is mitigated to an extent by ALGEPL's long-term relationship with this customer, which is substantiated by its demonstrated track record of repeat orders and the receipt of payments in a timely manner.

Margins susceptible to stiff competition and forex risks; forex exposure partly mitigated by forward contracts – As exports constitute a significant percentage of its turnover, the company remains exposed to currency fluctuations. However, it has an institutional hedging mechanism in place, which limits the foreign exchange risk to an extent. The company also faces stiff competition from domestic as well as overseas players from Thailand, Vietnam and China, which limits its pricing flexibility, thereby impacting the profit margins.

Operations vulnerable to regulatory norms in the rice industry as well as for export of traded products – Given the large dependence on exports to a single country, the company's operations remain exposed to regulatory risks associated with any adverse changes in trade policies between India and Yemen. Also, the company is exposed to agro-climatic risks in the key basmati and non-basmati rice paddy producing regions, which could impact rice production, availability, and quality. The rice industry is subject to intense regulations. As ALGEPL is present in the rice sector, its quality and reputation-related risks are high. Any rapid change in regulations could have a large impact on the players operating in the industry. With the ban on exports of non-basmati white rice, however, the company did not see any dip in export sales as the same was compensated by exports of parboiled rice.

Liquidity position: Stretched

The company's liquidity is stretched, given the high inventory holding needs of the business and limited headroom in working capital lines. The average utilisation of the sanctioned working capital limits stood at 100% during FY2024. ICRA notes that with an operating profit margin of 2.7% and NWC/OI of 8.6%, the company would continue to depend on external capital to grow its business, which is likely to constrain the company's liquidity position, going forward as well. However, limited long-term scheduled debt repayments in the near-to-medium term, as well as advance payments from customers and timely collection of debtors, provides some support to the overall liquidity profile.

The company has pledged its Fixed Deposits (FDs) of around ~Rs. 31.2 crore with the Union Bank of India against working capital facilities of Rs. 100.0 core sanctioned by the bank. The FDs are characterised as encumbered cash (restricted) in the financials of the company. The maturity value of the FDs is Rs. 33.0-35.0 crore with an interest rate of 7.5-8.0% on the FDs in FY2024, against interest rate of 8.5% on overdraft facilities.

The company's cash and bank balance stood at Rs. 6.5 crore as on March 31, 2024, providing it with additional liquidity. Moreover, the company utilised an ad-hoc limit worth Rs. 6.5 crore (Rs. 4.0 crore in CC limits and Rs. 2.5 crore in current accounts) in March 2024, due to increased inventory levels.

Rating sensitivities

Positive triggers – ICRA could upgrade the company's rating if it demonstrates an improvement in its liquidity profile and diversification of its customer/ geographical sales mix. Further, a specific metric that could lead to a rating upgrade is the TOL/TNW being less than 2.0 times on a sustained basis.

Negative triggers – Negative pressure on the company's rating could arise if revenues and profits decline significantly, due to factors including loss of a strategically important customer, in turn leading to a weakening in coverage indicators. The rating could also come under pressure if the entity's liquidity position deteriorates further on account of delayed receivables. Specific credit metrics that could trigger a downgrade would be a Total Debt/ OPBDITA of above 4.5 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Rice Mills
Parent/Group support	Not applicable
Consolidation/Standalone	The ratings are based on the company's standalone financial profile.

About the company

Al Gyas Exports Private Limited was incorporated in 1995 as a partnership firm and was subsequently converted into a private limited company in 1999. The company primarily exports rice to the West Asian, Russian, and African markets. The product profile comprises basmati and non-basmati rice (accounting for 100% of total sales in FY2024). The company sources its products from millers, either through brokers or agents in Andhra Pradesh, Gujarat, Haryana, Punjab, Madhya Pradesh, and Uttar Pradesh. Rice is procured and processed for exports. In FY2024, exports accounted for 98% of ALGEPL's total sales, while the remaining 2% was made up by domestic sales of broken rice.

The company has a marketing office in Mumbai and two rice processing plants at Gandhidham, Gujarat, with a production capacity of 18,000 metric tonne (MT) of rice per month, as on March 31, 2024. The units operated at utilisation levels of 55% in FY2024.

Key financial indicators (audited)

Al Gyas Exports Private Limited	FY2022	FY2023	FY2024*
Operating income	1077.6	1637.0	1665.3
PAT	10.3	31.9	-
OPBDIT/OI	2.3%	2.8%	-
PAT/OI	1.0%	1.9%	-
Total outside liabilities/Tangible net worth (times)	3.1	2.4	-
Total debt/OPBDIT (times)	4.4	2.4	-
Interest coverage (times)	3.4	7.2	-

*PAT: Profit after tax; OPBDITA: Operating profit before depreciation, interest, taxes and amortisation; Amounts in Rs. crore * Provisional data on best effort basis*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2025)				Chronology of rating history for the past 3 years			
		Type	Amount rated (Rs. crore)	Amount outstanding as on March 31, 2024 (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023		Date & rating in FY2022
					Jun 28, 2024	-	Mar 20, 2023	Jul 29, 2022	Apr 30, 2021
1	**Foreign Documentary Bills for Purchase/ Foreign Bill Discounting**	Short-term	100.0	-	**[ICRA]A4+**	-	**[ICRA]A4+**	**[ICRA]A4+**	**[ICRA]A4+**
2	**Packing Credit ^**	Short-term	(80.0)	-	**[ICRA]A4+**	-	**[ICRA]A4+**	**[ICRA]A4+**	**[ICRA]A4+**
3	**Foreign Bill Purchase ^**	Short-term	(35.0)	-	**[ICRA]A4+**	-	**[ICRA]A4+**	**[ICRA]A4+**	**[ICRA]A4+**
4	**Bills Discounting ^**	Short-term	(30.0)	-	**[ICRA]A4+**	-	**[ICRA]A4+**	**[ICRA]A4+**	**[ICRA]A4+**
5	**Bank Guarantee**	Short-term	5.0	-	**[ICRA]A4+**	-	**[ICRA]A4+**	**[ICRA]A4+**	**[ICRA]A4+**

Source: Company Data, ^sublimit of Foreign Documentary Bills for Purchase/ Foreign Bill Discounting

Complexity level of the rated instruments

Instrument	Complexity Indicator
Foreign Documentary Bills for Purchase/ Foreign Bill Discounting	Very Simple
Packing Credit	Very Simple
Foreign Bill Purchase	Very Simple
Bills Discounting	Very Simple
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 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 are available on ICRA's website: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Foreign Documentary Bills for Purchase/ Foreign Bill Discounting	NA	8.5%	NA	100.0	[ICRA]A4+
NA	Packing Credit	NA	NA	NA	(80.0)	[ICRA]A4+
NA	Foreign Bill Purchase	NA	NA	NA	(35.0)	[ICRA]A4+
NA	Bills Discounting	NA	NA	NA	(30.0)	[ICRA]A4+
NA	Bank Guarantee	NA	NA	NA	5.0	[ICRA]A4+

Source: Company Data, ^sublimit of Foreign Documentary Bills for Purchase/ Foreign Bill Discounting

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

Annexure II: List of entities considered for consolidated analysis – Not applicable

ANALYST CONTACTS

Shamsher Dewan
+91 124 4545 328
shamsherd@icraindia.com

Kinjal Shah
+91 22 6114 3442
kinjal.shah@icraindia.com

Sahil Udani
+91 22 6114 3469
Sahil.udani@icraindia.com

Aditya Lade
+91 22 6114 3451
aditya.lade@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar
+91 22 6114 3406
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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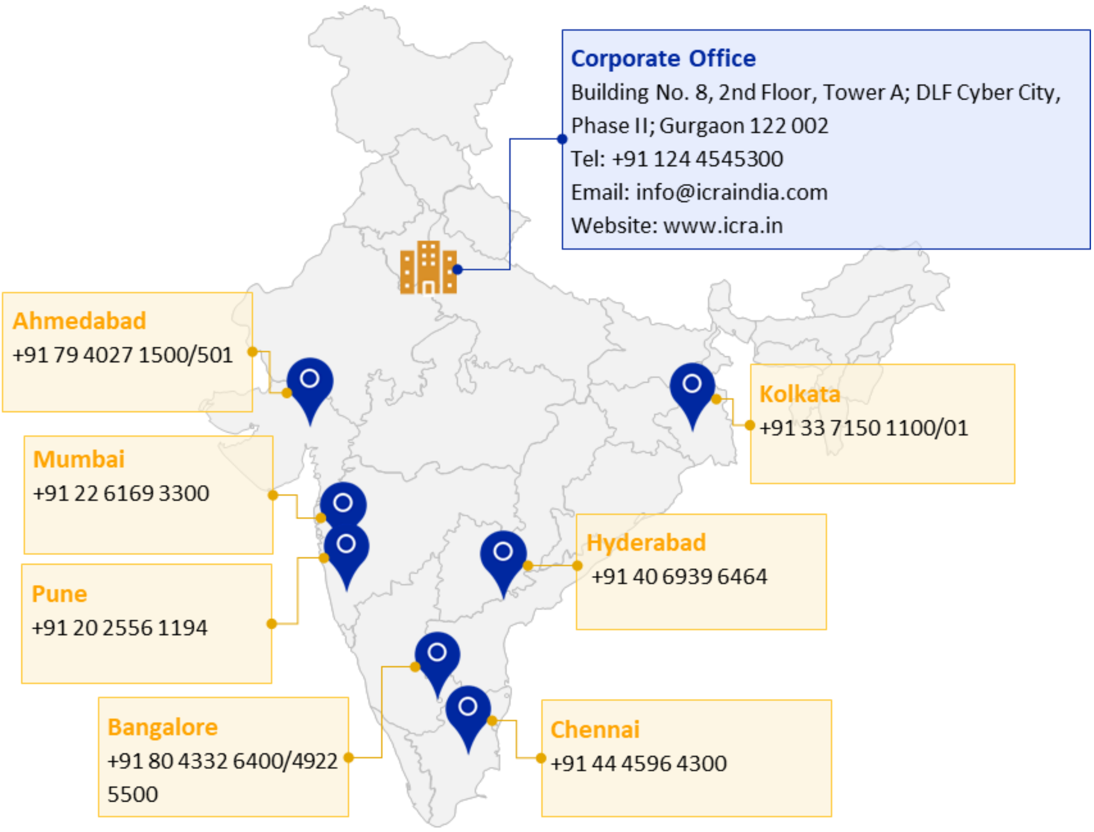
ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches



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