Gujarat Peanut Products Private Limited

February 20, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based Cash Credit	4.50	4.50	[ICRA]B+ (Stable); Rating reaffirmed and removed from the 'Issuer Not Cooperating' category
Fund-based Term Loan	1.89	Nil	-
Unallocated Limits	Nil	1.89	[ICRA]B+ (Stable); Rating reaffirmed and removed from the 'Issuer Not Cooperating' category
Total	**6.39**	**6.39**	

* Instrument details are provided in Annexure - 1

Rating action

ICRA has reaffirmed the long-term rating of [ICRA]B+ (pronounced ICRA B plus) to the Rs. 4.50 crore[1] fund-based (reduced from Rs 5.89 crore) facilities and the Rs. 1.89 crore (increased from nil) unallocated limits of Gujarat Peanut Products Private Limited (GPPPL or the company)[2]. The outlook on the long-term rating is Stable. ICRA has also removed the rating from the 'Issuer Not Cooperating' category.

Rationale

The reaffirmation of the rating continues to factor in the weak financial profile of GPPPL as reflected by its modest scale of operations, low profitability margins, weak capitalisation and debt coverage indicators, as well as high working capital intensity of operations. The rating continues to remain constrained by the high customer concentration risk; exposure to high competitive intensity in the trading and processing of agro-commodity business; and vulnerability of GPPPL's profitability to any adverse regulatory changes and availability of agro-commodities as the same is linked to seasonality and crop harvest.

The ratings, however, continue to favourably consider the long-standing experience of the promoters in the agro-commodities business through their association with other entities engaged in similar business, and favourable location of GPPPL in the agricultural area of Gujarat, enabling easy procurement of various agro products.

[1] *100 lakh = 1 crore = 10 million*

[2] *For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications*

Outlook: Stable

ICRA expects GPPPL to continue to benefit from the experience of its promoters in the agro-commodities business as well as the operational support from its other group concerns engaged in the same business sector. The outlook may be revised to Positive if substantial growth in scale and profitability and improvement in capital structure strengths the financial risk profile. The outlook may be revised to Negative in case of any substantial de-growth in revenues and profitability, or stretch in working capital cycle weakens the liquidity, and hence the financial risk profile of the company.

Key rating drivers

Credit strengths

Longstanding experience of promoters in the agro-commodity industry - The promoters, Mr. Arun Chang and Mr. Sagar Chag, have extensive experience of more than three decades in the trading and processing of agro-commodities through their association with another entity, Sagar International.

Favourable location benefits in terms of procurement of agro-commodities - The company's production facility is located in the agricultural belt of Rajkot (Gujarat), which ensures easy availability of various agro-commodities like groundnut, cumin seeds, wheat, etc.

Credit challenges

Weak financial risk profile – The financial risk profile of GPPPL remains weak as evident from its relatively small scale of operations, low profit margins given its low value-added operations and stiff competition, and weak capitalisation and debt coverage indicators. The company reported sharp decline of ~29% in operating income in FY2017 due to low sales volume. As on March 31, 2017, the company's gearing stood high at 2.65 times and debt coverage indicators remained weak with interest coverage of 1.87 times, NCA/Total Debt of 6% and Total Debt/OPBDITA of 6.62 times. The working capital intensity also stood high and increased to 34% as on March 31, 2017 due to increased inventory level. The liquidity position of the company also remained weak as reflected by average monthly utilisation of ~94% during the October 2016 to December 2017 period.

High customer concentration risk – The company faces high customer concentration risk, which has increased over the years, reflected by its top 10 customers accounting for ~97% of the total revenue in FY2017 (95% in FY2016), wherein the share of its group company stood at ~40%.

Exposure to agro-climatic conditions and regulatory changes - The agro-commodity trading and processing business remains dependent on the performance of the agricultural sector, which is further impacted by a combination of factors like climatic conditions, prevailing demand–supply scenario, regulatory changes pertaining to export incentive, etc. The company's revenues as well as profitability remain vulnerable to these external factors.

Intense competition due to low entry barriers - The company faces stiff competition from other small and unorganised players in the industry, which limits its bargaining power with customers and suppliers, and hence, exerts pressure on its margins.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria:

Corporate Credit Rating Methodology

About the company:

Incorporated in 2005, Gujarat Peanut Products Private Limited (GPPPL) is involved in the processing and trading of agro-commodities such as groundnut seeds, wheat, sesame seeds, cumin seeds, chickpeas, and coriander seeds, among others. The company's processing facility at Rajkot (Gujarat), mainly undertakes cleaning and sorting activities. The promoters of the company, Mr. Arun Chag and Mr. Sagar Chag, have extensive experience of more than three decades in the agro-commodities business through their association with Sagar International, which is also engaged in trading agro-commodities.

In FY2017, the company reported a profit after tax of Rs. 0.07 crore on an operating income of Rs. 22.39 crore, as compared to a profit after tax of Rs. 0.01 crore on an operating income of Rs. 31.39 crore in FY2016.

Key Financial Indicators (Audited)

	FY 2016	FY 2017
Operating Income (Rs. crore)	31.39	22.39
PAT (Rs. crore)	0.01	0.07
OPBDIT/ OI (%)	4.09%	4.76%
RoCE (%)	7.20%	6.89%
Total Debt/ TNW (times)	3.00	2.65
Total Debt/ OPBDIT (times)	6.05	6.62
Interest coverage (times)	1.74	1.87
NWC/ OI (%)	23%	34%

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

	Instrument	Current Rating (FY2018)					Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating Feb-18	Date & Rating Dec-17	Date & Rating in FY2017 Jun-16	Date & Rating in FY2016 Jul-15	Date & Rating in FY2015 May-14
1	Cash Credit	Long Term	4.50	-	**[ICRA]B+ (Stable)**	**[ICRA]B+ (Stable); ISSUER NOT COOPERATING**	**[ICRA]B+**	**[ICRA]B+**	**[ICRA]B+**
2	Term loan	Long term	-	-	**-**	**[ICRA]B+ (Stable); ISSUER NOT COOPERATING**	**[ICRA]B+**	**[ICRA]B+**	**[ICRA]B+**
3	Unallocated Limits	Long Term	1.89	-	**[ICRA]B+ (Stable)**	**-**	**-**	**-**	**-**

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	-	-	-	4.50	[ICRA]B+ (Stable)
NA	Unallocated Limits	-	-	-	1.89	[ICRA]B+ (Stable)

Source: Gujarat Peanut Products Private Limited

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