Ganesh Grains Limited

February 26, 2019

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Fund Based - Cash Credit	30.00	[ICRA]A (Stable); Assigned
Non Fund Based – Bank Guarantee	20.00	[ICRA]A (Stable)/[ICRA]A1; Assigned
Unallocated Limits	25.00	[ICRA]A (Stable)/[ICRA]A1; Assigned
Total	**75.00**	

*Instrument details are provided in Annexure-1

Rationale

The assigned ratings take into consideration the extensive experience of the promoters of Ganesh Grains Limited (GGL) and its strong market position. The company is a leading producer of 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 comfortable liquidity position. ICRA notes that the operating margin of GGL witnessed a sharp improvement in H1 FY2019, largely driven by various cost optimisation measures adopted by the management during the year, although the sustainability of the same remains to be seen. The ratings also derive comfort from the low working capital intensity of operations, which is likely to continue going forward.

The ratings are, however, constrained by the company's historically low capacity utilisation, which stood at ~47% in H1 FY2019. The ratings are also impacted by intense competition faced from large organised as well as unorganised players in the agro-processing industry, which restricts pricing flexibility, thereby exerting pressure on margins. The ratings further take into account high geographical concentration risk as ~75% of the company's turnover in FY2018 and H1 FY2019 was derived from West Bengal despite its presence in some other states. Moreover, the ratings consider the inherent susceptibility of the company's operations and margins to prevailing agro-climatic conditions and changes in Government policies.

Outlook: Stable

ICRA believes that GGL will continue to benefit from the extensive experience of its promoters and its established market position. The outlook may be revised to Positive if substantial growth in revenue and profitability, improvement in capacity utilisation and better working capital management, strengthen the financial risk profile. The outlook may be revised to Negative if there is any material decline in profit margins, cash accruals are lower than expected, or if any sizeable debt-funded capex worsens the capital structure and weakens liquidity.

Key rating drivers

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* 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.

Conservative capital structure and healthy coverage indicators – An equity infusion of around Rs. 60.00 crore in FY2017 has substantially improved GGL's net worth and reduced the overall debt level of the company. Low debt and healthy net worth led to a conservative capital structure with a gearing of 0.08 times as on September 30, 2018 (0.21 times as on March 31, 2018). The coverage indicators also improved substantially in FY2018 due to a significant decline in the interest burden. The same improved further in H1 FY2019 on the back of increased profitability. The financial risk profile is likely to improve in the near term, supported by further reduction in debt level and comfortable liquidity position.

Improvement in operating margin in H1 FY2019 – Implementation of various cost optimisation measures by the management, which include reduction in inventory holding period and inward freight costs, have had a positive impact on the company's operating margin, which improved substantially to 9.43% in H1 FY2019 from 5.32% in FY2018. However, sustainability of the same, despite rising raw material costs in the second half of the current fiscal, would remain a rating sensitivity, going forward.

Low working capital intensity – The company's working capital intensity remained at a moderate level over the past few years, primarily on the back of low receivables position. However, the same has witnessed a steady improvement and stood low at 9% in H1 FY2019 (22% in FY2017), supported by reduced inventory holding and liberal credit period availed from suppliers. The improvement in working capital intensity is likely to continue, going forward.

Credit challenges

Low capacity utilisation – GGL had carried out large capacity expansion over the past fiscals and currently has considerable idle capacity, as reflected by an utilisation of 47% in H1 FY2019 (42% in FY2018). ICRA expects the capacity utilisation to remain at the similar level in the near term.

Intense competition limits pricing flexibility – The company operates in an intensely competitive and fragmented industry and faces stiff competition from large organised players as well as small producers, which limits its pricing flexibility, impacting the margins in case of rising raw material prices. Implementation of the GST on only registered branded wheat and *chana* products has benefitted the unorganised players, impacting the revenue and margins of players having registered brands including GGL, as witnessed in FY2018. However, a steady shift of consumer preferences towards branded products is likely in the coming years because of better quality offered by them.

High geographical concentration risk – GGL has a strong regional presence with a healthy market share in West Bengal. The state accounted for ~75% of GGL's total sales in FY2018 and H1 FY2019. Although the company is focusing on diversifying its geographical market and is gradually increasing its presence, particularly in the southern states, the geographical concentration in West Bengal is likely to continue in the medium term, at least.

Exposure to agro-climatic risks and changes in Government regulations – Given its operations 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

The company has generated positive fund flow from operations (FFO) during the past few years on account of healthy cash accruals from the business, coupled with moderate working capital intensity of operations. The average working capital utilisation by the company continues to remain low at present, indicating its comfortable liquidity position. ICRA notes that in the absence of any large capital expenditure programme, negligible long-term debt servicing obligations and low working capital intensity of operations, the liquidity profile of GGL is likely to remain comfortable in the near term, at least. Moreover, the same is also aided by considerable liquid investments with the company and healthy cash accruals from the business.

Analytical approach:

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

About the company:

Ganesh Grains Limited (GGL) was initially set up as a proprietorship firm by Lt. Brij Mohan Mimani in 1936 and was incorporated as a company in March 2000. The company manufactures *atta*, *besan*, *maida*, *sattu*, *sujee*, *dalia* etc. GGL markets its products under the brand name 'Ganesh', which has an established presence in West Bengal.

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

GGL has two wholly-owned subsidiaries, namely, Shree Venkatesh Agro Foods Private Limited (SVAFPL) and Gobardhan Agri Flour Mills Private Limited (GAFMPL), which are involved in the similar line of business. These two group entities are likely to be merged with GGL in the near term.

Key financial indicators

	FY2017 (Audited)	FY2018 (Audited)	H1 FY2019 (Provisional)
Operating Income (Rs. crore)	556.52	500.44	226.86
PAT (Rs. crore)	8.47	12.38	11.12
OPBDIT/ OI (%)	6.42%	5.32%	9.43%
RoCE (%)	11.85%	9.89%	18.97%
Total Debt/ TNW (times)	0.94	0.21	0.08
Total Debt/ OPBDIT (times)	3.66	1.17	0.30
Interest Coverage (times)	2.66	5.98	30.98

Status of non-cooperation with previous CRA:

CRA	Status	Date of Release
ACUITE (SMERA)	Issuer not co-operating	October 08, 2018
CRISIL	Ratings suspended	December 09, 2015

Any other information: None

Rating history for last three years:

	Instrument	Current Rating (FY2019) Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating February 2019	Chronology of Rating History for the Past 3 Years: Date & Rating in FY2018 -	Date & Rating in FY2017 -	Date & Rating in FY2016 -
1	Cash Credit	Long Term	30.00	-	[ICRA]A (Stable)	-	-	-
2	Bank Guarantee	Long Term/ Short Term	20.00	-	[ICRA]A (Stable)/ [ICRA]A1	-	-	-
3	Unallocated Limits	Long Term/ Short Term	25.00	-	[ICRA]A (Stable)/ [ICRA]A1	-	-	-

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	-	-	-	30.00	[ICRA]A (Stable)
NA	Bank Guarantee	-	-	-	20.00	[ICRA]A (Stable)/[ICRA]A1
NA	Unallocated Limits	-	-	-	25.00	[ICRA]A (Stable)/[ICRA]A1

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About ICRA Limited:

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