ICRA

August 08, 2019 Revised

Gujarat Peanut Products Private Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based Cash Credit	4.50	6.50	[ICRA]B+(Stable); Reaffirmed
Unallocated Limits	1.89	1.00	[ICRA]B+(Stable); Reaffirmed
Total	**6.39**	**7.50**	

**Instrument details are provided in Annexure-1*

Rationale

The rating reaffirmation continues to take into account Gujarat Peanut Products Private Limited's (GPPPL) weak financial risk profile characterised by declining operating profitability, leveraged capital structure and weak coverage indicators. The company's liquidity position remains tight with fully utilised working capital requirements, along with impending repayments of unsecured loans. These loans were availed to meet its increased working capital requirement during Q4 FY2019. The rating also factors in the vulnerability of its profitability to adverse fluctuations in raw material prices and intense competition, which leads to pricing pressure. The rating factors in the risk associated with exposure to agro-climatic conditions and the Government's regulations in the domestic and international markets.

The rating, however, continues to favourably consider the extensive experience of the promoters in the agro-commodities business and the favourable location of GPPPL in the agriculturally productive area of Gujarat, enabling easy procurement of various agro products.

Outlook: Stable

ICRA expects GPPPL to continue to benefit from the extensive experience of its promoters in the agro-commodity industry. The outlook may be revised to Positive if substantial growth in scale and cash accruals, along with an improvement in capital structure, strengthen the credit profile and eases its liquidity position. The outlook may be revised to Negative if substantial decline in scale and profitability, leads to inadequate cash accruals needed to support debt repayments, or if any major debt-funded capex or elongation in the working capital cycle leads to deterioration in the capital structure and the liquidity.

Key rating drivers

Credit strengths

Vast experience of promoters in the agro-commodity industry – The promoters, Mr. Arun Chag 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 company's operating income (OI) has remained volatile over the years. After a decline in FY2017 to Rs. 22.39 crore from Rs. 31.39 crore in FY2016, it revived in FY2018 to Rs. 31.73 crore and further grew to Rs. 54.41 crore in FY2019 (provisional). The revenue growth in FY2018 and FY2019 was due to an increase in wheat processing, even though groundnut and cumin fetched lower revenues compared to the earlier fiscal, along with addition of new commodities to its portfolio. The operating margins remained low and kept fluctuating on account of GPPPL trading in different products. The same declined to 3.22% in FY2018 and 1.17% in FY2019 (provisional) from 4.76% in FY2017 with higher raw material cost. In line with the lower operating margins, the net margins stood lower at 0.13% in FY2018 against 0.33% in FY2017. The total debt stood at Rs. 5.20 crore as on March 31, 2018 and increased to Rs. 8.12 crore as on March 31, 2019 with higher working capital requirements, which resulted in borrowing of unsecured loan from various banks/financial institutes by the company. The net worth increased to Rs. 4.60 crore as on March 31, 2019 from Rs. 2.70 crore as on March 31, 2018 with equity infusion to the tune of Rs. 1.60 crore. The capital structure remained leveraged at 1.92 times as on March 31, 2018 and 1.75 times as on March 31, 2019 compared to 2.65 times as on March 31, 2017. Due to low profitability and relatively high debt level, the coverage indicators remained weak as evident from interest coverage at 1.71 times in FY2018 and 1.34 times in FY2019 (vis-à-vis 1.87 times in FY2017), Total Debt/OPBDITA at 5.08 times in FY2018 and 12.71 times in FY2019 (vis-à-vis 6.62 times in FY2017) and NCA/TD at 7% in FY2018 and 4% in FY2019 (vis-à-vis 6% in FY2017).

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.

Liquidity position

The company's fund flow from operations and free cash flows remained positive in FY2018. However, the FFO turned negative in FY2019 on the back of higher operating cost along with higher working capital requirement. Its liquidity position remains tight with scheduled repayments of unsecured term loan availed to bridge the financing gap because of increased working capital requirements in Q4 FY2019. GPPPL has enhanced its working capital limits to Rs. 6.50 crore from April 2019 onwards and the cash credit limits have remained fully utilised with an average utilisation of 95% for the last 15 months from April 2018 to June 2019. Going forward, generation of adequate cash flows and promoters' support in times of cash flow mismatches will remain crucial.

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 statement of the issuer.

About the company

Incorporated in 2005, 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 is at Rajkot (Gujarat). It mainly undertakes cleaning, grading, shelling and sorting activities.

In FY2018, the company reported a net profit of Rs. 0.04 crore on an OI of Rs.31.73crore, compared to a net profit of Rs. 0.07 crore on an OI of Rs. 22.39 crore in FY2017. It reported a profit before tax and depreciation of Rs. 0.34 crore on an OI of Rs. 54.41 crore inFY2019 (provisional financials).

Key financial indicators (audited)

	FY2017	FY2018	FY2019(P)
Operating Income (Rs. crore)	22.39	31.73	54.41
PAT (Rs. crore)	0.07	0.04	0.34*
OPBDIT/OI (%)	4.76%	3.22%	1.17%
RoCE (%)	6.89%	7.79%	7.93%
Total Debt/TNW (times)	2.65	1.92	1.75
Total Debt/OPBDIT (times)	6.62	5.08	12.71
Interest Coverage (times)	1.87	1.71	1.34

*(P)-Provisional financials, *profit before depreciation and tax*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

	Instrument	Current Rating (FY2020)				Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2020 August 2019	Date & Rating in FY2019 -	Date & Rating in FY2018 February 2018	December 2017	Date & Rating in FY2017 June 2016
1	Cash Credit	Long Term	6.50	NA	[ICRA]B+ (Stable)		[ICRA]B+ (Stable)	[ICRA]B+ (Stable); ISSUER NOT COOPERATING*	[ICRA]B+ (Stable)
2	Unallocated	Long Term	1.00	NA	[ICRA]B+ (Stable)	-	[ICRA]B+ (Stable)	[ICRA]B+ (Stable); ISSUER NOT COOPERATING *	[ICRA]B+ (Stable)

**Issuer not co-operating*

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	NA	NA	NA	6.50	[ICRA]B+(Stable)
NA	Unallocated	NA	NA	NA	1.00	[ICRA]B+(Stable)

Source: GPPPL

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

Corrigendum

Document dated August 8, 2019 has been corrected with revision as detailed below –

In credit challenges section (page 2) and Key Financial Indicators section (page 3), TD/TNW ratio has been corrected to 1.92 times in FY2018 and 1.75 times in FY2019(P).

ANALYST CONTACTS

K. Ravichandran
+91 44 4596 4301
ravichandran@icraindia.com

Suprio Banerjee
+91 22 6114 3443
supriob@icraindia.com

Mayank Agrawal
+91 79 4027 1514
mayank.agrawal@icraindia.com

Preet Ludhwani
+91 79 4027 1542
preet.ludhwani@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee
+91 80 4332 6401
jayantac@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

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

ICRA Limited

Corporate Office
Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002
Tel: +91 124 4545300
Email: info@icraindia.com
Website: www.icra.in

Registered Office
1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001
Tel: +91 11 23357940-50

Branches

Mumbai	+ (91 22) 24331046/53/62/74/86/87
Chennai	+ (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,
Kolkata	+ (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,
Bangalore	+ (91 80) 2559 7401/4049
Ahmedabad	+ (91 79) 2658 4924/5049/2008
Hyderabad	+ (91 40) 2373 5061/7251
Pune	+ (91 20) 2556 0194/ 6606 9999