

February 06, 2023

## Origo Commodities India Pvt. Ltd.: Rating downgraded for commercial paper programme

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Commercial Paper	20.00	20.00	[ICRA]A4+; downgraded from [ICRA]A3
<b>Total</b>	<b>20.00</b>	<b>20.00</b>	

\*Instrument details are provided in Annexure-I

### Rationale

The rating downgrade considers ICRA's concern that the financial profile of Origo Commodities India Pvt. Ltd.'s (OCIPL) will weaken owing a sharp moderation in profitability in FY2023 and growing debt levels exerting pressure on liquidity. The company's margins have been impacted on the back of slowdown of the government warehousing (WH) business, certain one time expenditure on business development and ongoing expenses towards the digital commodity platform (e-Mandi). The company's funding requirements remain high in the supply chain business which has been growing at a strong pace. Moreover, high receivables in the WH segment add to the financing requirements. The company is exposed to high client concentration risk historically; however, it has been diversifying with the addition of new customers in the WH segment. OCIPL has also been witnessing a stretched receivable cycle in its WH segment and has been providing for and writing off aged receivables. The company also gone also into arbitration for receivables pending against the Punjab Grain Procurement Corporation Limited (PUNGRAIN). High term debt repayment obligations over the next few quarters are expected to exert pressure on OCIPL's liquidity. The company's ability to timely refinance its debt and raise equity remains key for smooth cashflow management.

The rating, however, continues to take comfort from the extensive experience of OCIPL's promoters in agri commodity warehousing and supply chain. The ratings consider OCIPL's established business relationships with its reputed clients and its presence across various regions of the country dealing in various commodities. The company has been able to grow its supply chain volumes substantially in the current fiscal to Rs. 634 crore in H1 FY2023 compared to Rs. 370 crore in FY2022. ICRA also notes that while the company's contracts with PUNGRAIN have matured and that it has been able to win contracts from other states. Further, the company follows adequate risk management policies to mitigate the key risks associated with its supply chain business mainly related to price volatility for the commodities it stocks and related receivables.

ICRA has also noted the mention of involvement of a junior company official in an alleged misconduct related to warehousing business in Punjab. As indicated by OCIPL's management, this investigation does not have any direct relation with the company. ICRA would continue to monitor the development and the impact of the same on the company's credit profile.

### Key rating drivers and their description

#### Credit strengths

**Experienced promoters with extensive track record in the agri-commodity warehousing and supply chain segment** – OCIPL is promoted by Mr. Sunoor Kaul and Mr. Mayank Dhanuka who have a demonstrated track record of operations for more than a decade. The promoters are supported by a professional management team in commodity supply chain, risk assessment and technology. It received investment from marquee early stage investors in the past which include Oikocredit Ecumenical Development, Caspian SME Impact Fund IV and Triodos Investment Management.

**Adequate risk management policies for supply chain business** – OCIPL has adequate risk management policies in place to control the volatility in prices of agri-commodities, particularly in its supply chain business, with a margin call option in trade

finance (TF) and credit insurance in its procurement finance (Profin). In addition to taking upfront part advance from the client, in case of price volatility, OCIPL sends margin calls to its clients at every 5% threshold. Moreover, if case payments are not received, it has the option and control of liquidating the commodity within a short notice to customers. The process is completed before the repayment of the pledge loans. The company has adequate operational and management information systems to overlook its diversified operations. Moreover, it avails credit insurance across its various business segments.

**Presence across supply chain in agri-commodities business with reputed clientele** – OCIPL has a presence in the agri-commodities supply chain, including procurement, storage, and its digital platform business. The company also has presence in the warehousing services, primarily for government players, and manages sizeable commodity volumes. The company has witnessed robust growth in its supply chain business since FY2022, with an approximately three times estimated volume growth in current fiscal, enabling it to enhance its presence across the supply chain. Given its track record, it has established relationships with reputed customers across the business segments which ensures steady business. It has worked with 150 clients and 250 suppliers in its supply chain business.

### Credit challenges

**Weakened profitability in FY2023** – OCIPL's operating profit margin (OPM) declined to ~2.8% in H1 FY2023 compared to 5.6% in FY2022 mainly due to slowdown in the government warehouse segment led by underutilisation of the warehousing capacities due to less procurement by the Government across the country. Lower storage by the Government was particularly in the wheat commodity in current fiscal; however, this is expected to improve going forward. In addition, ongoing expenses towards the digital commodity platform along with certain expenditure on business development have been exerting pressure on its margins. While the company has been able to get new contracts from states like Madhya Pradesh, revenues in this segment will now be linked to capacity utilisation (unlike PUNGRAIN contract) and margins will be exposed to variation in utilisation level. Further, with growing contribution from the low margin supply chain business, the company's ability to improve its profitability is a key rating monitorable.

**High dependence on external debt** – OCIPL has to fund inventory holding and receivables in its fast-growing supply chain business. Further, the receivable cycle is long in the government WH segment. A sizeable portion of its receivables related to PUNGRAIN is now in the arbitration process and would take time to realise. The company funds its trade finance business through pledge loans. It also avails non-convertible debentures (NCDs) and commercial papers (CPs), etc. to fund its other businesses. The company's cashflow from operations is modest, and it primarily funds its supply chain business through short and long-term debt which are expected to rise in tandem with business volumes. ICRA notes that the company is making efforts to raise equity funding in the near to medium term and it remains key for smooth cashflow management.

**Modest return indicators and credit metrics** – OCIPL has modest return indicators led by the supply chain business. The company also has low interest coverage due to its high borrowing costs and modest profit margins. The high term debt repayment obligations over the next few quarters are expected to exert pressure on liquidity and necessitate refinancing. ICRA notes that the company has received enhancement in its pledge limit which has lower interest cost compared to other mode of funding such as NCDs, CPs, etc. However, ICRA has also noted the high borrowing cost of some of its recently contracted debt.

### Liquidity position: Stretched

The company's liquidity profile is **stretched** due to reduced cash generation from the business and high repayment obligations for term debt, NCDs and CPs (Rs 19 crore in Q4 FY2023 and Rs 24 crore in FY2024). The company also has limited cushion available in the cash credit limit as of December 2022 while it has cushion available in its pledge limits which will be used towards supply chain business. The company has received funding from DFC US and some enhancements in its pledge limits. Majority of the term debt repayments are expected to be refinanced, as also witnessed in the past.

## Rating sensitivities

**Positive factors** – The rating upgrade could be following an increase in OPM, leading to an improvement in cash accruals, liquidity position and debt coverage metrics on a sustained basis.

**Negative factors** – A rating downgrade would be led by a further stretch in the liquidity position led by an elongating working capital cycle and increased dependence on debt resulting in further weakening of the credit metrics.

## Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">Rating Approach – Consolidation</a>
Parent/Group support	Not applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has taken a consolidated view of the business and financial risk profiles of OC IPL and Origo Markets Private Limited (OMPL; a 99.99% subsidiary of OC IPL).

## About the company

Incorporated in 2011, OC IPL provides warehouse management and supply chain services, including TF and Profin of agri commodities. It offers integrated post-harvest management solutions, including storage and preservation and collateral management services for agri commodities, along with services such as pest management, testing and certification, fumigation and procurement of agri commodities.

## Key financial indicators (audited/unaudited)

OC IPL and OMPL consolidated	FY2021	FY2022	H1 FY2023*
Operating income	224.9	681.6	874.4
PAT	5.0	9.6	-
OPBDIT/OI	8.1%	5.6%	2.8%
PAT/OI	2.2%	1.4%	-
Total outside liabilities/Tangible net worth (times)	1.4x	1.5x	-
Total debt/OPBDIT (times)	10.1x	5.7x	-
Interest coverage (times)	1.2x	1.6x	1.5x

Source: Company, \*unaudited financials

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amounts in Rs. Crore

## Status of non-cooperation with previous CRA: Not applicable

## Any other information: Not applicable

## Rating history for past three years

Instrument	Type	Current rating (FY2023)		Chronology of rating history for the past 3 years				
		Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore) *	Date & rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2020		Date & Rating in FY2019
				Feb 6, 2023	Feb 24, 2022	Sep 30, 2019	Aug 27, 2019	May 21, 2018
<b>1 Commercial Paper</b>	Short Term	20.00	20.00	[ICRA] A4+	[ICRA] A3	-	-	-
<b>2 Bill discounting</b>	Long Term	-	-	-	-	[ICRA]BBB-(Stable); ISSUER NOT COOPERATING; Withdrawn	[ICRA]BBB-(Stable); ISSUER NOT COOPERATING	[ICRA]BBB-(Stable); ISSUER NOT COOPERATING
<b>3 Unallocated</b>	Long Term	-	-	-	-	[ICRA]BBB-(Stable); ISSUER NOT COOPERATING; Withdrawn	[ICRA]BBB-(Stable); ISSUER NOT COOPERATING	[ICRA]BBB-(Stable); ISSUER NOT COOPERATING
<b>4 Cash Credit</b>	Long Term	-	-	-	-	[ICRA]BBB-(Stable); ISSUER NOT COOPERATING; Withdrawn	[ICRA]BBB-(Stable); ISSUER NOT COOPERATING	[ICRA]BBB-(Stable); ISSUER NOT COOPERATING
<b>5 Non-fund based</b>	Long/Short Term	-	-	-	-	[ICRA]BBB-(Stable)/[ICRA]A3; ISSUER NOT COOPERATING; Withdrawn	[ICRA]BBB-(Stable)/[ICRA]A3; ISSUER NOT COOPERATING	[ICRA]BBB-(Stable)/[ICRA]A3; ISSUER NOT COOPERATING

Source: Company, \*outstanding as on December 31, 2022

## Complexity level of the rated instruments

Instrument	Complexity Indicator
Short Term – Commercial Paper	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
INE0A2414064	Commercial Paper	1-Dec-2022	NA	28-Apr-2023	5.00	[ICRA] A4+
INE0A2414072	Commercial Paper	21-Dec-2022	NA	18-May-2023	4.00	[ICRA] A4+
NA*	Commercial Paper	NA	NA	NA	11.00	[ICRA] A4+

Source: Company, not placed

#### Annexure II: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Origo Commodities India Pvt. Ltd.	NA*	Full Consolidation
Origo Markets Private Limited	99.99%	Full Consolidation

Source: Company, \*parent company

## ANALYST CONTACTS

**Shamsher Dewan**

91 124 4545 328

[shamsherd@icraindia.com](mailto:shamsherd@icraindia.com)

**Kinjal Shah**

+91 22 6114 3442

[kinjal.shah@icraindia.com](mailto:kinjal.shah@icraindia.com)

**Sheetal Sharad**

+91 124 4545 374

[Sheetal.sharad@icraindia.com](mailto:Sheetal.sharad@icraindia.com)

**Uday Kumar**

+91 124 4545 867

[uday.kumar@icraindia.com](mailto:uday.kumar@icraindia.com)

## RELATIONSHIP CONTACT

**Jayanta Chatterjee**

+91 80 4332 6401

[jayantac@icraindia.com](mailto:jayantac@icraindia.com)

## MEDIA AND PUBLIC RELATIONS CONTACT

**Ms. Naznin Prodhani**

Tel: +91 124 4545 860

[communications@icraindia.com](mailto:communications@icraindia.com)

## Helpline for business queries

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

[info@icraindia.com](mailto: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](http://www.icra.in)

## ICRA Limited



### Registered Office

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



### Branches



© Copyright, 2023 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website [www.icra.in](http://www.icra.in) or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.