

October 22, 2024

Shri Ganesh Agro Foods: Rating reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund Based – Cash Credit	10.00	0.00	-
Long-term – Fund Based – EPC/CC	88.00	170.00	[ICRA]BB(Stable); reaffirmed and assigned for enhanced amount
Long-term – Fund Based – Term Loan	2.00	2.00	[ICRA]BB(Stable); reaffirmed
Total	100.00	172.00	

*Instrument details are provided in Annexure-I

Rationale

The reaffirmed rating continues to favourably factor in the extensive experience of SGAF's promoters in the rice milling industry, which is reflected by the significant growth in the firm's scale during recent years. The firm derives strength from the attractive location of its rice milling facility near the rice-producing belt of Karnal, Haryana, ensuring easy availability of raw material (paddy) as well as milled rice. The rating is supported by the favourable demand prospects of the industry as India is the second-largest producer and consumer of rice internationally, which augurs well for the firm.

The rating, however, is constrained by the firm's moderate financial profile, as reflected by thin profitability, resulting in weak debt protection metrics. Further, the working capital intensity of the firm remains moderately high, especially during the peak season of paddy buying. Nevertheless, the firm's scale has increased sharply in recent years, which has increased the firm's cash accruals in absolute value. However, the firm's profitability is likely to remain thin with an operating margin of 2-2.5% on account of limited value addition in the rice milling business. The firm's profitability remains exposed to fluctuations in the prices of raw materials, an intensely competitive industry, characterised by the presence of many players in the organised and unorganised sectors, and risks associated with adverse Government regulations. Additionally, the credit quality of the firm would remain exposed to agro-climatic risks, which can affect paddy availability in adverse weather conditions and result in a negative impact on the raw material availability for SGAF.

The Stable outlook on the rating reflects ICRA's opinion that SGAF's revenue will continue to grow steadily, along with stable profitability on the back of its long track record of operations and healthy demand for basmati rice in the international market.

Key rating drivers and their description

Credit strengths

Experienced promoters with long industry presence – The family members have been involved in the business of rice milling, processing and sorting for over four decades and have gained a thorough knowledge of the market. Such a long presence in the industry has helped the firm establish strong relationships with its suppliers and customers.

Presence in a major rice growing area ensures easy availability of paddy/rice – India's long-grain basmati rice is cultivated in Punjab, Haryana, west Uttar Pradesh, Uttarakhand and Himachal Pradesh. The firm's location ensures easy raw material availability from all neighbouring states.

Stable demand prospects and increased scale – The demand prospects for rice, a staple food grain, remain favourable as India is the world’s second-largest producer and consumer of rice. The firm’s scale increased in FY2024 on account of sharp growth in sales volume and price rise, driven by favourable demand in export as well as domestic markets.

Credit challenges

Relatively lower operating profitability leading to weak debt coverage indicators – The firm’s operating profit margin has remained thin due to limited value addition and an intensely competitive industry, which limits its scope of margin expansion. Going forward, the low margin, coupled with increasing interest costs and borrowings, are likely to result in weak debt coverage indicators.

High working capital intensity and stretched liquidity – The firm’s working capital intensity remains high on account of its large inventory, which includes paddy as well as processed rice. The firm’s utilisation of its bank limits is generally ~95% with a limited buffer for emergencies. Further, with stable but limited cash accruals and nominal free balances, the liquidity of the firm remains stretched. However, ICRA expects the partners to provide regular need-based support in the form of unsecured loans with flexible repayment terms.

Intense competition in the industry – The rice industry is very competitive and fragmented in nature due to the presence of established players as well as numerous small players in the unorganised sector. Given the low capex and lack of technical complexity of the work, the entry barriers have remained low, resulting in the entry of many small-to-medium scale enterprises.

Susceptibility to agro-climatic and regulatory changes – The rice milling industry is susceptible to agro-climatic risks, which can affect the availability of paddy in adverse weather conditions. It is exposed to Government policies such as MSP, affecting the raw material prices and export regulations affecting business and profitability. Any major change in Government regulations pertaining to the rice industry can impact the industry dynamics.

Risks related to partnership nature of the firm – SGAF is exposed to the risks related to a partnership firm, including the capital withdrawal risk. However, no capital withdrawal has been observed in the past three years.

Liquidity position: Stretched

The liquidity of the firm is stretched on account of limited cash accruals on the back of thin profit margins and nominal free balances maintained by the firm. Moreover, the average utilisation of the firm’s bank limits has remained at ~95% during the past years, with a high utilisation during the peak season (November to February) of paddy buying. The firm does not have any significant long-term debt or capex plan in the near-to-medium term except for a small capex of less than Rs. 4.0 crore, which is proposed to be fully funded by a fresh term loan of Rs. 3.2 crore. The annual repayment of the proposed term loan is likely to be less than Rs. 1.0 crore, annually. As per ICRA’s estimates, stable cash accruals of the firm in future and need-based support, in the form of unsecured loans or capital from the partners, would be critical in meeting any cash flow mismatch.

Rating sensitivities

Positive factors – ICRA could upgrade SGAF’s rating if the firm demonstrates a significant increase in its revenue and profitability, leading to an improvement in its debt protection metrics and liquidity, along with the strengthening of its net worth on a sustained basis. Specific credit metrics that could result in a rating upgrade include an interest coverage of 2.5 times on a sustained basis.

Negative factors – Pressure on SGAF’s rating could arise if there is any sharp decline in revenues and profitability, leading to a deterioration in its debt coverage metrics. Further, any significant stretch in the working capital cycle, unanticipated large debt-funded capex or capital withdrawal, resulting in a deterioration of the firm’s liquidity, could also result in a rating downgrade. Specific credit metrics that could lead to a rating downgrade include an interest coverage of less than 2.0 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rice Mills
Parent/Group support	Not applicable
Consolidation/Standalone	Standalone

About the company

Incorporated in 2011, Shri Ganesh Agro Foods is involved in the milling, processing and sorting of basmati and non-basmati rice, which is mainly (more than 60%) exported. The company's plant at Karnal has a milling capacity of 20 MT per day, along with three separate sortex units having a total capacity of 18 MT per day. The firm's business is mostly (more than 80%) contributed by the basmati rice segment from exports as well as domestic markets. The major portion of the exports are to the West Asian countries and the remaining to European countries. In the domestic market, the firm only sells basmati rice to reputed retailers and grocery chains.

Key financial indicators

	FY2022	FY2023	FY2024*
Operating income	413.8	655.3	671.2
PAT	3.7	4.5	8.0
OPBDIT/OI	2.2%	1.9%	1.9%
PAT/OI	0.9%	0.7%	1.2%
Total outside liabilities/Tangible net worth (times)	7.9	10.6	7.2
Total debt/OPBDIT (times)	11.6	9.7	13.1
Interest coverage (times)	2.0	2.3	1.4

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs. crore; *Provisional data

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Amount rated (Rs. crore)	Current rating (FY2025)					Chronology of rating history for the past 3 years	
			Date & rating in FY2025		Date & rating in FY2024		Date & rating in FY2023	Date & rating in FY2022	
			Oct 22, 2024	Jul 17, 2023	Jul 07, 2023	Nov 29, 2022	Oct 25, 2021		
1 Fund-based – EPC/CC	Long-term	170.00	[ICRA]BB (Stable)	[ICRA]BB (Stable)	-	-	-		
2 Fund-based – Term Loan	Long-term	2.00	[ICRA]BB (Stable)	[ICRA]BB (Stable)	-	-	-		
3 Fund-based – Cash Credit	Long-term	0.00	-	[ICRA]BB (Stable)	-	-	-		
4 Unallocated	Long-term	-	-	-	[ICRA]BB (Stable)	[ICRA]B+ (Stable); ISSUER NOT COOPERATING	[ICRA]B+ (Stable); ISSUER NOT COOPERATING		

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term – Fund-based – EPC/CC	Simple
Long-term – Fund-based – Term Loan	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	Fund Based – EPC/CC	NA	9.00%	NA	170.00	[ICRA]BB (Stable)
NA	Fund Based – Term Loan	FY2022	9.00%	FY2026	2.00	[ICRA]BB (Stable)

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

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

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Branches



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