

January 29, 2021

Tanna Agro Impex Private Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term/ Short -term – Fund Based Working Capital	450.00	450.00	[ICRA]BBB+ (Stable) / [ICRA]A2; reaffirmed
Short -term – Non-Fund Based Working Capital	10.00	10.00	[ICRA]A2; reaffirmed
Total	460.00	460.00	

*Instrument details are provided in Annexure-1

Rationale

The reaffirmation of the ratings assigned to Tanna Agro Impex Private Limited (TAIPL/ the company) factors in the demonstrated track record of the company in securing orders for export of basmati rice from its key customer in the middle east over the past two decades. The rating further factors in the healthy growth in orders from its key customer, the timely realisation of payments and the track record of the company in sustaining the profitability metrics. Also, ICRA positively takes note of TAIPL's favourable capital structure with the absence of long-term debt, along with the comfortable debt coverage indicators as evident from the interest coverage of 4.4 times in FY2020. The company is funding its capex to expand the rice milling capacity entirely from its internal accruals. Moreover, the company's policy of order-backed procurement and forex hedging mitigate the risks associated with inventory and forex movement to a significant extent.

The ratings are, however, constrained by the high customer concentration risk, as around 75%- 80% of revenue are derived from a single customer. Any event that leads to termination or non-renewal of the contract with this customer would significantly affect the company's financial risk profile. Nevertheless, the long-term relationship of the company with this customer provides comfort to a certain extent. The ratings are further constrained by the higher working capital intensity of the company, arising from the need to maintain a large inventory of rice and paddy because of their seasonal availability. The higher working capital intensity is also reflected in the high utilisation of the working capital limits, especially during the procurement season. Also, ICRA takes note of the high competition in the basmati rice market, given the fragmented industry structure, and the limited value addition, which limits the pricing flexibility of TAIPL. Further, TAIPL's credit profile remains exposed to agro-climatic conditions and forex movements. Furthermore, any adverse regulatory changes and/or trade policy changes that impact the export of basmati rice to the middle east market may adversely impact the business risk profile TAIPL.

The stable outlook assigned to TAIPL factors in the benefits arising from its established operational track record, the extensive experience of its promoters, stable profitability and comfortable capital structure.

Key rating drivers and their description

Credit strengths

Long track record of promoters in basmati rice industry - TAIPL has an operational track record of over three decades in the basmati rice industry. Moreover, the company's promoters have several decades of experience in this industry.

Demonstrated ability to supply basmati rice to its main buyer over past two decades – Basmati rice is the major revenue source for the company, contributing more than 95% to the sales mix. The company has a demonstrated track record of supplying basmati rice to its key export customer in the middle east.

Track record of timely payments from key customer in export market – The counterparty credit risk is low for the company, given the customer’s (a state-owned enterprise) track record of timely payments till date.

Steady revenue growth, comfortable capital and debt coverage indicators - TAIPL has registered steady revenue growth over the years, supported by healthy growth in orders from the export customer. While the revenue is likely to witness a decline due to the adverse impact of the Covid-19 pandemic in Q1 FY2021, it is likely to recover in FY2022. Further, the company’s capital structure remains comfortable in the absence of long-term debt; also, the debt coverage indicators remain comfortable as evident from the interest coverage of 4.4 times in FY2020.

Credit challenges

High customer concentration risk - The company’s customer concentration remains high as a single export customer has been accounting for 75-80% of the total revenues over the last many years. ICRA, however, notes that the risk is mitigated to an extent by the company’s long-term relationship with this customer, which is substantiated by a demonstrated track record of supplying basmati rice to this customer and the receipt of payments in a timely manner.

High working capital requirement - The company’s working capital intensity is high, primarily due to high inventory levels, given the seasonality in the availability of the basmati paddy and rice and the company’s policy to procure majority of its requirement during October-December for the upcoming contract period.

Intense competition; exposure to agro-climatic risks and changes in trade policies - The basmati rice industry is highly fragmented and is marked by the presence of numerous players. This intensifies competition and limits the pricing flexibility of the industry participants. Also, TAIPL is exposed to agro-climatic risks, which could impact the basmati paddy and rice availability and their quality. Moreover, given the large dependence on exports, the company remains exposed to changes in trade policies and regulatory risks.

Exposure to foreign exchange risk - As exports constitute a significant percentage of the turnover, the company remains exposed to currency fluctuations to the extent of unhedged exposure. However, TAIPL has a hedging mechanism in place to reduce any impact of adverse fluctuation on foreign exchange rates.

Liquidity position: Adequate

TAIPL’s liquidity is supported by healthy cash accruals and timely realisation of payment from customers. While the company does not have any long-term debt, it remains dependent on short-term borrowings to meet its working capital requirements, mainly to procure paddy and rice. The cash balances stood at Rs. 3.0 crore as on January 20, 2021. However, the working capital was fully utilised as of December 2020, as it is the peak season for paddy procurement.

Rating sensitivities

Positive factors – The ratings could be upgraded if the company demonstrates healthy growth in revenues and profitability and significantly diversifies its customer base and strengthens its liquidity position.

Negative factors – Negative pressure on the ratings could arise if sales volumes or realisation deteriorates or there is an increase in procurement prices, resulting in considerable decline in profitability. Also, elongation of the working capital cycle, adversely impacting the liquidity position, could lead to a rating downgrade.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Issuers in the Indian Rice industry
Parent/Group Support	Not Applicable
Consolidation/Standalone	The ratings are based on the standalone financial profile of the company.

About the company

TAIPL is a trading house and was incorporated by Mr. Kalyanji Tanna and his son Mr. Dipak Tanna in FY1994 for the export of agricultural commodities, particularly basmati rice. The company meets its basmati rice requirement from open market as well as its captive rice mills located in Haryana, which have a capacity of 250 MT per day, located in Haryana. The company is currently expanding its rice milling capacity to 450 MT per day, with the capex funded from internal accruals. The company also exports other commodities such as handpicked selected (HPS) groundnuts and sesame seeds.

Key financial indicators (audited)

TAIPL Standalone	FY2018	FY2019	FY2020
Operating Income (Rs. crore)	1124.8	1089.2	1298.3
PAT (Rs. crore)	37.99	40.34	54.25
OPBDIT/OI (%)	7.45%	7.21%	7.36%
RoCE (%)	15.11%	12.51%	13.07%
Total Outside Liabilities/Tangible Net Worth (times)	1.49	1.58	1.38
Total Debt/OPBDIT (times)	3.84	5.43	4.55
Interest Coverage (times)	3.55	4.92	4.37
DSCR (times)	2.65	3.59	3.47

*PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: $PBIT / \text{Avg}(\text{Total Debt} + \text{Tangible Net Worth} + \text{Deferred Tax Liability} - \text{Capital Work in Progress})$; DSCR: $(PBIT + \text{Mat Credit Entitlements} - \text{Fair Value Gains through P\&L} - \text{Non-cash Extraordinary Gain/Loss}) / (\text{Interest} + \text{Repayments made during the Year})$

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2021)			Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of March 31, 2020 (Rs. crore)	Date & Rating in	Date & Rating in	Date & Rating in	Date & Rating in
					Jan 29, 2021	Jul 08, 2019	Apr 06, 2018	Apr 19, 2017
1	Fund based bank facilities	Long-term/ Short Term	450.0	-	[ICRA]BBB+ (Stable)/ [ICRA]A2	[ICRA]BBB+ (Stable)/ [ICRA]A2	[ICRA]BBB+ (Stable)/ [ICRA]A2	[ICRA]BBB (Stable)/ [ICRA]A3+
2	Non-Fund based bank facilities	Short term	10.0	-	[ICRA]A2	[ICRA]A2	[ICRA]A2	[ICRA]A3+

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 [click here](#)

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	Fund based limits	-	NA	NA	450.00	[ICRA]BBB+ (Stable)/ [ICRA]A2
NA	Non-Fund based limits	-	NA	NA	10.00	[ICRA]A2

Source: TAIPL

Annexure-2: List of entities considered for consolidated analysis

Not applicable

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