

July 17, 2023

## Shri Ganesh Agro Foods: Rating assigned for enhanced amount

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term - Unallocated	25.00	0.00	-
Long-term – Fund Based – Cash Credit	0.00	10.00	[ICRA]BB assigned (Stable); Outstanding/
Long-term – Fund Based – EPC/BD	0.00	88.00	[ICRA]BB assigned (Stable); Outstanding/
Long-term – Fund Based – Term Loan/Forward Cover	0.00	2.00	[ICRA]BB assigned (Stable); Outstanding/
<b>Total</b>	<b>25.00</b>	<b>100.00</b>	

\*Instrument details are provided in Annexure-I

### Rationale

Shri Ganesh Agro Foods's (SGAF) rating has been removed from the Issuer Not Cooperating category and the long-term rating has been upgraded. The rating action follows co-operation from the firm in sharing required information and a likely increase in its scale in FY2024, which moved up sharply in FY2023 driven by an increased volume and price. While arriving at the rating, ICRA has taken into consideration the standalone business and financial profiles of the firm. Earlier, the rating was based on the consolidated business and financial risk profiles of SGAF, and its Group company, ATC Foods Private Limited (AFPL). However, following the business separation within the promoter family wherein AFPL will be owned and managed separately, ICRA has revised the approach.

The assigned 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 the recent years. The firm derives strength from the attractive location of its rice milling facility near the rice producing belt of Karnal, Haryana, which ensures 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 scale of the company has increased sharply during the recent years, which has increased the firm's cash accruals in absolute value. However, the profitability of the firm is likely to remain thin with an operating margin of 2-3% 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 the availability of paddy in adverse weather conditions and thereby have 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 more than 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 neighboring 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 sharply in FY2023 on account of a sharp growth in sales volume and price rise, driven by a favourable demand in export as well as domestic markets.

### Credit challenges

**Weak debt coverage indicators** – The operating profit margin of the firm 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 around 90% with limited buffer for emergency. Further, with stable but limited cash accruals and nominal free balances, the liquidity of the firm remains stretched. However, partners 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 because of 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 the 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 around 90% 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. 3.0 crore, which is proposed to be partly funded by a fresh term loan of Rs. 2.0 crore. The annual repayment of the proposed term loan is likely to be less than Rs. 0.50 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 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 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 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	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">Rating Methodology for Rice Millers</a>
Parent/Group support	Not Applicable
Consolidation/Standalone	Standalone

## About the company

Incorporated in 2011, Shri Ganesh Agro Foods is involved in 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 basmati rice in export as well as domestic markets. The major portion of the exports are made to middle east countries and the remaining to European countries. In the domestic market, the firm sells only basmati rice to reputed basmati rice retailers and grocery chains.

## Key financial indicators

	FY2021	FY2022	FY2023*
Operating income	474.89	413.81	655.39
PAT	3.67	3.70	4.94
OPBDIT/OI	2.31%	2.20%	1.99%
PAT/OI	0.77%	0.89%	0.75%
Total outside liabilities/Tangible net worth (times)	8.45	7.88	9.19
Total debt/OPBDIT (times)	7.72	11.63	9.58
Interest coverage (times)	2.66	2.03	2.17

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

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2024)			Chronology of rating history for the past 3 years			
		Amount rated (Rs. crore)	Amount outstanding as of Mar 31, 2023 (Rs. crore)	Date & rating in FY2024		Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
				Jul 17, 2023	Jul 07, 2023			
1 Unallocated	Long term	-	-	-	[ICRA]BB (Stable)	[ICRA]B+ (Stable); ISSUER NOT COOPERATING	[ICRA]B+ (Stable); ISSUER NOT COOPERATING	[ICRA]B+ (Stable); ISSUER NOT COOPERATING
2 Fund-based – Cash Credit	Long term	10.00	-	[ICRA]BB (Stable)		-	-	-
3 Fund-based – EPC/BD	Long term	88.00	-	[ICRA]BB (Stable)		-	-	-
4 Fund-based – Term Loan/ Forward Cover	Long term	2.00	2.00	[ICRA]BB (Stable)		-	-	-

## Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term – Fund-based – Cash Credit	Simple
Long-term – Fund-based – EPC/BD	Simple
Long-term – Fund-based – Term Loan/Forward Cover	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 – Cash Credit	NA	9.00%	NA	10.00	[ICRA]BB (Stable)
NA	Fund Based – EPC/BD	NA	9.00%	NA	88.00	[ICRA]BB (Stable)
NA	Fund Based – Term Loan/Forward Cover	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

## ANALYST CONTACTS

**Jayanta Roy**  
+91 33 7150 1100  
[jayanta@icraindia.com](mailto:jayanta@icraindia.com)

**Manish Pathak**  
+91 124 4545 397  
[manishp@icraindia.com](mailto:manishp@icraindia.com)

**Priyesh Ruparelia**  
+91 22 6169 3328  
[priyesh.ruparelia@icraindia.com](mailto:priyesh.ruparelia@icraindia.com)

**Aditya Lade**  
+91 983 3415 302  
[aditya.lade@icraindia.com](mailto:aditya.lade@icraindia.com)

## RELATIONSHIP CONTACT

**L. Shivakumar**  
+91 22 6114 3406  
[shivakumar@icraindia.com](mailto:shivakumar@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)

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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.

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## ICRA Limited



### Registered Office

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



### Branches



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