

November 24, 2023

Tanna Agro Impex Private Limited: Ratings upgraded; Outlook revised to Stable from Positive

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Working Capital Facilities	475.00	475.00	[[ICRA]A-/[ICRA]A2+; upgraded from [ICRA]BBB+/[ICRA]A2; outlook revised to Stable from Positive
Total	475.00	475.00	

*Instrument details are provided in Annexure-I

Rationale

The ratings upgrade factors in Tanna Agro Impex Private Limited's (TAIPL) consistently healthy operating margins supported by its backward integrated milling facility and contractual supply agreement with Kuwait Supply Company (KSC) at an attractive rate. The ratings derive strength from TAIPL's modest capital structure, along with its comfortable debt coverage indicators. Improvement in the cost structure following the expansion of its milling facility, efficient working capital management, and refinancing of working capital loans at lower rates helped improve the interest coverage to 6.4 times in FY2022 (from 4.7 times in FY2021) and the same has witnessed further improvement to 6.9 times in FY2023. Going forward, ICRA expects TAIPL's interest cover to remain above 6 times in FY2024, supported by TAIPL's healthy operating profitability. In addition, TAIPL's conservative financial policy and calibrated approach towards growth enabled it to fund a sizeable part of its inventory from internal resources. Additionally, the track record of timely receipt of payments from its key customer in the export market limits TAIPL's dependence on borrowings and supports its overall liquidity.

The ratings further factor in the demonstrated track record of the company in securing export orders for basmati rice from its key customer, which is a sovereign-owned enterprise of the Government of Kuwait, consistently for more than 25 years. ICRA notes that TAIPL has been able to consistently maintain a 60-70% market share¹ in the export of basmati rice to Kuwait from India, which reflects its strong reach in its addressable market.

The ratings are, however, constrained by the high customer concentration and contract renewal risks, as around 80-90% of its revenue is derived from a single customer where contracts are renegotiated annually. Any incident leading to termination or non-renewal of the contract with this customer would significantly affect the company's financial risk profile. Nevertheless, the long and established relationship of the company with this customer (spanning more than 25 years) provides comfort in revenue visibility. The ratings are further constrained by the high working capital intensity of the company, driven by the necessity to maintain a large inventory of rice and paddy because of their seasonal availability. ICRA also notes that seasonal procurement of paddy exposes the company to the risk of weaker margins in the event of weaker-than-expected realisations of rice in the subsequent season. Further, ICRA notes the intense competition in the basmati rice market given the fragmented industry structure and limited value addition, which limit the pricing flexibility of TAIPL. Further, TAIPL's credit profile remains exposed to agro-climatic risks associated with the availability of paddy, which periodically lead to a deficit due to lower crop output. Besides, any adverse regulatory changes and/or trade policy changes that impact the export of basmati rice to Kuwait may adversely impact the business risk profile of TAIPL.

¹ Source: Ministry of Commerce

The Stable outlook on TAIPL's rating reflects ICRA's opinion that the company will continue to benefit from its established relationship as an exporter of basmati rice to Kuwait Supply Company, enabling TAIPL to maintain healthy operating and financial performance going forward.

Key rating drivers and their description

Credit strengths

Consistent healthy operating margins supported by backward integrated milling facility and attractive export realisations – TAIPL has been able to maintain healthy levels of operating profit margins over the last decade. Due to a structural shift in the business operations following the commissioning of an additional rice mill facility that enhanced the in-house milling capacity to 450 tonnes per day (TPD) from 250 TPD in H2 FY2021, TAIPL's dependence on expensive unprocessed rice procurement has reduced. This has led to operating cost savings and better-quality management for the company and also reduced its inventory holding requirement to some extent. The increase in the share of own milling led to an improvement in the operating margin from 5.4-8.3% between FY2016-FY2020 to above 9% from FY2021 onwards. Despite the temporary disruption of operations in September 2023 due to the imposition of the minimum export price (MEP) of \$1200/MT on basmati rice exports (as the Government decided to stop the circumvention of non-basmati rice exports), the company's operating margin stood at 9.2% in H1 FY2024. The relaxation of the MEP in October 2023, improvement in cost structure, along with the agreement with Kuwait Supply Company at an attractive rate, provides healthy revenue and earnings visibility for the company for the remainder of FY2024.

Long track record of promoters in the 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, which gradually helped the company to grow its business profitably.

Demonstrated ability of supplying basmati rice to its main customer over the past two decades – Export of basmati rice is the primary revenue source for the company, contributing 80-90% to the sales mix. The company has a demonstrated track record of supplying basmati rice to its key export customer, Kuwait Supply Company, which is a sovereign-owned enterprise of the Government of Kuwait.

Track record of timely payments from key customer in the export market – The counterparty credit risk is low for the company, given the key customer's (a state-owned enterprise) track record of timely payments till date. This is reflected by the company's debtor days remaining at a low level of 15-50 days between FY2019 and FY2023.

Modest capital structure and comfortable debt coverage indicators – Despite the elevated inventory holding at the year-end, the company's capital structure remains modest, as reflected by a gearing of 0.7 times as on March 31, 2023. Also, the debt coverage indicators remain comfortable, as evident from an interest coverage of 6.87 times and 14.5 times in FY2023 and H1 FY2024, respectively.

Credit challenges

High customer concentration risk; exposure to adverse changes in trade policies – The company's customer concentration remains high as a single export customer has been accounting for 80-90% 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 its demonstrated track record of annual contract renewals and receipt of payments in a timely manner. Moreover, with the customer being a government-owned entity, which is procuring basmati rice for public distribution as a staple food item, and TAIPL being its sole supplier for the last five years, the risk of contract termination is mitigated to an extent. However, given the large dependence on exports to a single country, TAIPL remains exposed to regulatory risks associated with any adverse changes in trade policies between India and Kuwait and/ or any general restriction on the basmati rice exports from India. In August 2023, the industry faced challenges following the imposition of MEP of \$1200/MT on basmati rice exports as the Government decided to stop the circumvention of non-basmati rice exports. However, as the majority

stakeholders of the industry would have been impacted by this elevated MEP, the Government brought down the same to a more reasonable level of \$950/MT in October 2023, which has provided relief to TAIPL as its ongoing contracted price stood higher at \$1070/MT.

High working capital intensity – The company’s working capital intensity is high, primarily due to elevated inventory levels, given the seasonal availability of the basmati paddy and rice. Besides, a major portion of the company’s procurement occurs during the paddy harvesting months of October-December owing to comparatively lower procurement prices and availability of better-quality paddy for delivery in the upcoming contract period. This has helped the company meet the quality requirements for the export customer and avoid quality slippage discounts for the last several years, which supported its profit margins. ICRA, however, notes that the seasonal procurement of paddy in bulk for meeting the delivery schedule for the next 12 months exposes the company to the risk of subdued profit margins in case of weaker-than-anticipated realisations of rice in the subsequent season. That said, the backward integration has helped the company in reducing the working capital intensity to some extent due to a reduction in the purchase of costlier milled rice from traders by substituting it with the direct purchase of paddy.

Intense industry competition – 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, limiting the scope for material improvement in profit margins.

Exposure to agro-climatic risks – TAIPL is exposed to agro-climatic risks in the key basmati rice paddy-producing regions, which could impact the basmati paddy and rice availability and quality. This can lead to volatility in TAIPL’s earnings in periods of large gaps between demand and supply.

Liquidity position: Adequate

Timely realisation of payment from customers and a moderation in the working capital intensity, following the backward integration, are expected to reduce the borrowing levels and support the company’s liquidity profile. Given the efficient working capital management, ICRA expects TAIPL’s free cash flows to remain positive in FY2024. Consequently, the company’s liquidity has been assessed as adequate. Though the company’s cash and liquid investment balance stood at a nominal Rs. 27 crore as on September 30, 2023, the availability of sizeable undrawn working capital lines supports the company’s liquidity profile.

Rating sensitivities

Positive factors – The ratings could be upgraded if the company demonstrates diversification in its customer base. Additionally, the company’s ability to demonstrate healthy growth in its revenues and profitability, and an improvement in its liquidity position by maintaining adequate buffer in its working capital facilities, could also lead to a rating upgrade.

Negative factors – The ratings could be downgraded if there is continued pressure on sales volumes or realisations or a sharp increase in procurement costs, resulting in a considerable decline in profitability. Also, an elongation of the working capital cycle adversely impacting the liquidity position could also exert pressure on the ratings. Specific metrics that could lead the ratings to be downgraded include an interest coverage of less than 5.0 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Rice Millers
Parent/Group support	Not applicable
Consolidation/Standalone	Standalone financial statement of the issuer

About the company

Tanna Agro Impex Private Limited (TAIPL) is a trading house and was incorporated by Mr. Kalyanji Tanna and his son, Mr. Dipak Tanna, in FY1994 for exporting agricultural commodities, particularly basmati rice. The company procures paddy from the open market, which is processed in its rice mill at Gharaunda, Haryana, with a processing capacity of 450 TPD. The company primarily exports full-grain basmati rice to Kuwait and sells broken rice in the domestic market.

Key financial indicators

TAIPL - Standalone	FY2022	FY2023	H1 FY2024*
Operating income	854.9	942.9	685.0
PAT	58.1	58.3	44.0
OPBDIT/OI	11.0%	9.5%	9.2%
PAT/OI	6.8%	6.2%	6.4%
Total outside liabilities/Tangible net worth (times)	0.3	0.8	NA
Total debt/OPBDIT (times)	1.3	4.2	NA
Interest coverage (times)	6.4	6.9	14.5

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 Sep 30, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
				Nov 24, 2023	Jan 23, 2023	Feb 04, 2022	Jan 29, 2021
1 Working Capital Facilities	Long Term / Short Term	475.0	62.50	[ICRA]A-(Stable)/ [ICRA]A2+	[ICRA]BBB+ (Positive) / [ICRA]A2	[ICRA]BBB+ (Stable) / [ICRA]A2	
2 Fund Based Facilities	Long Term / Short Term	-	-		-	-	[ICRA]BBB+ (Stable) / [ICRA]A2
3 Untied Limits	Short Term	-	-		-	[ICRA]A2	-
4 Non-fund based bank facilities	Short Term	-	-		-	-	[ICRA]A2

Complexity level of the rated instruments

Instrument	Complexity Indicator
Working Capital Facilities	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	Working Capital Facilities	NA	NA	NA	475.00	[ICRA]A-(Stable)/[ICRA]A2+

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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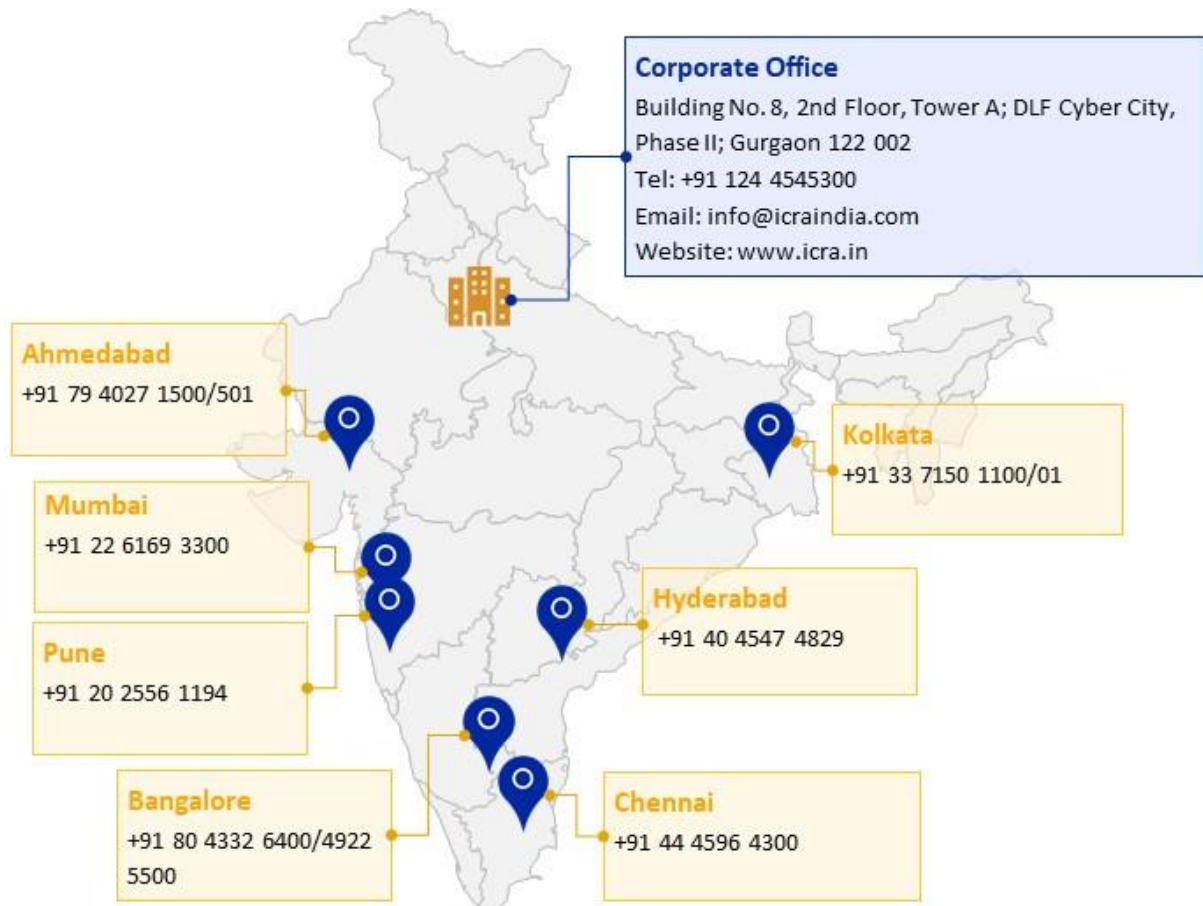
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