

ATC Foods Private Limited

February 28, 2019

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Cash Credit	65.00	50.00	[ICRA]BB (Stable); upgraded from [ICRA]BB-(Stable)
Total	65.00	50.00	

*Instrument details in Annexure

Rationale

For arriving at the ratings, ICRA has consolidated the business and financial risk profiles of ATC Foods Private Limited (AFPL) and its Group company – Shri Ganesh Agro Foods (SGAF) as these operate in a similar line of business, have operational linkages and share a common management. The companies are together referred to as the Group.

The rating action considers the healthy growth in the Group's operating income (OI) in FY 2018 and the current year which coupled with stable operating margins has resulted in increase in cash accruals. Moreover, the gearing and working capital intensity has shown an improvement in FY 2018.. The rating continues to be favorably supported by the promoter's experience in the rice industry; the proximity of the mill to a major rice growing area, which ensures easy availability of paddy; and the stable demand outlook as rice is an important part of the staple Indian diet.

ICRA's rating, however, continues to be constrained by agro climatic risks, which affect paddy availability in adverse conditions. The rating continues to be subdued by the entity's low value-adding operation and the high industry competition, which has resulted in weak profitability. Further, the working capital requirements have been primarily funded through bank borrowings, leading to a highly leveraged capital structure.

Going forward, the ability of the group to profitably increase its scale of operations while improving its capital structure and maintaining optimal working capital intensity will be the key rating sensitivity.

Outlook: Stable

ICRA believes that the Group will continue to benefit from the extensive experience of its promoters. The outlook may be revised to Positive if there is substantial increase in the Group's profitability margins alongside a decline in its debt levels. The outlook may be revised to Negative if the cash accrual is lower than expected, or there is any major decline in sales turnover, or stretch in the working capital cycle weakens liquidity.

Key rating drivers

Credit strengths

Experienced promoters with long industry presence - The promoters and their family 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 to establish strong relationship with its suppliers and customers.

Presence in a major rice growing area ensures easy availability of rice – India's long-grain Basmati rice is cultivated in the north Indian states of Punjab, Haryana, West Uttar Pradesh, Uttarakhand and Himachal Pradesh. The group's location ensures easy raw material availability from all neighboring states.

Good demand prospects for the industry as rice is a staple food grain and India is the world's second largest producer and consumer of rice - Rice is one of the important food crops and is the staple diet for a significant part of the world population. Rice ranks among the top three food grains in terms of worldwide production. Over 90 per cent of the global rice output and consumption is concentrated in Asia, and hence the demand prospects of rice industry would continue to be favourable for Indian players.

Credit challenges

Weak debt coverage indicators due to low profits - The operating profit margin has remained low due to limited value-adding and an intensely competitive industry, which limit the scope of margin expansion. Low margin coupled with high interest cost on borrowed funds has led to weak debt coverage indicators.

Intense industry competition, characterised by the presence of large number of organised and unorganised players - The rice industry is highly competitive and fragmented in nature because of the presence of established players such as KRBL Limited, L T Foods limited and Amira Foods India Limited, who have to compete with numerous small players in the unorganised sector. Given the low capex and technical complexity of work, the entry barriers have remained low, resulting in the entry of large number of small-to-medium scale enterprises.

Exposure to agro climatic risks - Rice being an agricultural commodity is exposed to vagaries of monsoon and other agricultural risks such as disease outbreak, lower/higher-than-projected production levels (which impact the supply and hence the price), poor storage capacities and quality inconsistencies. The company's ability to buy paddy of consistent quality at right price is the key to success in the basmati rice industry

Liquidity position

The debt of the group comprises of unsecured loan and loan from related parties. The gearing was high at 4.02 times in FY2018. Its liquidity remains moderate as evident from moderate working capital utilisation level and current ratio of 1.14 in FY2018

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Rice Industry
Parent/Group Support	The rating is based on the consolidated financials of AFPL and SGAF as both these companies share significant operational, managerial and financial synergies
Consolidation /Standalone	The rating is based on the consolidated financial profile of AFPL and SGAF

About the company

Incorporated in 2011, AFPL is involved in milling, processing and sorting of basmati and non-basmati rice. The company's plant at Delhi has a milling capacity of 60 tonnes per day. The company exports basmati rice as well as sells to the domestic market. The direct exports are made to countries such as Dubai and Saudi Arabia and the remaining is sold through exporters to European countries.

Key financial indicators (Audited)

	AFPL Standalone		The Group (AFPL+SGAF)	
	FY2017	FY2018	FY2017	FY2018
Operating Income (Rs. crore)	422.19	478.77	688.39	781.70
PAT (Rs. crore)	0.83	0.98	1.67	2.27
OPBDIT/OI (%)	1.53%	1.58%	1.49%	1.53%
RoCE (%)	8.82%	10.65%	8.15%	10.82%
Total Debt/TNW (times)	3.57	3.80	4.96	4.02
Total Debt/OPBDIT (times)	8.76	8.43	9.67	7.32
Interest Coverage (times)	1.14	1.13	1.38	1.25
NWC/OI (%)	16.3%	15.2%	15	12

Status of non-cooperation with previous CRA: None

Any other information: None

Rating history for last three years

Instrument	Type	Current Rating (FY2019)		Chronology of Rating History for the past 3 years			
		Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in February 2019	Date & Rating in August 2017	Date & Rating in June 2016	Date & Rating in FY2016
1 Cash Credit	Long-term	50.00	-	[ICRA]BB (Stable)	[ICRA]BB- (Stable)	[ICRA]B+	-

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 www.icra.in

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	Long-term Cash Credit	-	-	-	50.00	[ICRA]BB (Stable)

Source: AFPL

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Shri Ganesh Agro Foods	Not applicable	100%

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