

July 04, 2019

Geetanjali Agro Industries: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund based limits	10.00	10.00	[ICRA]B+ (Stable); Reaffirmed
Unallocated Limits	3.00	3.00	[ICRA]B+ (Stable); Reaffirmed
Total	13.00	13.00	

*Instrument details are provided in Annexure-1

Rationale

The rating considers Geetanjali Agro Industries (GAI)'s small scale of operations in the rice-milling industry, which is characterised by stiff competition, restricting its operating margins. The rating also considers, its moderate financial profile characterised by thin margin, high gearing and stretched coverage indicators. Moreover, agro-climatic risks can affect the availability of paddy in adverse weather conditions and thereby have a negative impact on GAI's revenues. The ratings also consider the risks arising from the partnership nature of the firm.

The rating, however, favourably factors in GAI's experienced management with an extensive operational track record in the rice industry. The firm benefits from the easy availability of paddy as the rice mill is located in a major paddy-growing region of Karnataka. ICRA also considers the favourable demand prospects of the industry as India is one of the largest producers and consumers of rice.

Outlook: Stable

ICRA believes GAI will continue to benefit from the extensive experience of its partners in the rice milling industry. The outlook may be revised to 'Positive' if substantial growth in revenue and profitability, and better working capital management, strengthens its financial risk profile. The outlook may be revised to 'Negative' if cash accrual is lower than expected, or if any major capital expenditure, or stretch in the working capital cycle, weakens liquidity.

Key rating drivers

Credit strengths

Extensive experience of the promoter in the rice-milling and trading business - The promoters have significant experience spanning over two decades in the rice milling industry, resulting in established relationship with customers.

Presence in a major paddy-growing region – GAI's plant is located in Raichur, which is surrounded by areas such as Manvi, Sindhnoor and Gangawati well known for paddy cultivation. This results in low transportation cost and easy availability of paddy.

Favourable demand prospects for rice – The demand prospects for the rice industry are expected to remain good as rice is a staple food grain and India is the world's second largest producer and consumer of rice.

Credit challenges

Small scale of operations - The firm's scale of operations has been small with an installed capacity of 8 metric tonne (MT) of paddy per hour and revenues of Rs.41.5 crore in FY2019(as per provisional financials), limiting its financial flexibility.

Moderate financial profile – GAI’s financial profile remained moderate characterised by thin margins with operating margins of 5.2% in FY2019, high gearing of 1.6 times as on March 31, 2019 and stretched coverage indicators as depicted by interest coverage of 2.0 times, NCA/Total Debt ratio of 9% in FY2019.

Stiff competition in the industry - The rice milling industry is characterised by intense competition with the presence of a large number of organised and unorganised players impacting the margins.

Industry susceptible to agro-climatic risks -The rice-milling industry is susceptible to agro-climatic risks, which can affect the availability of the paddy in adverse weather conditions.

Risk related to partnership nature of the firm - GAI is exposed to the risks inherent to the partnership nature of firm including the capital withdrawal risk.

Liquidity position

SRI’s liquidity position is moderate. The same was reflected by moderate average utilisation of ~65% of the working capital limits during May 2018 to May 2019, with peak utilisation (90.4%) in March 2019. The firm’s working capital limit utilisation is high during the months February to June due to seasonality of paddy availability.

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 standalone financial statements of the company

About the company

Established in 2014 by Mr. B. Srinivas and family, GAI is a partnership firm, involved in the milling of paddy and produces rice. The firm’s major products include boiled rice, raw rice, bran, broken rice and husk. Although the rice mill commenced operations in November 2013, the promoter group has been involved in similar business for more than two decades. GAI’s plant is spread over an area of 5 acres in Raichur district of Karnataka with a capacity to process 8 MT of paddy per hour. The firm sells its products under the brand name ‘Geetanjali’ with different variants such Mayur, Gold, Life, Camel, Camel Gold, and Perfect Broken Rice.

According to provisional financials, GAI reported an operating income (OI) of Rs. 41.5 crore and a net profit of Rs. 0.6 crore in FY2019 against an OI of Rs. 39.0 crore and a net profit of Rs. 0.7 crore in FY2018.

Key financial indicators

	FY2017	FY2018	FY2019 *
Operating Income (Rs. crore)	34.6	39.0	41.5
PAT (Rs. crore)	0.6	0.7	0.6
OPBDIT/ OI (%)	5.9%	6.4%	5.2%
RoCE (%)	14.1%	15.8%	11.0%
Total Debt/ TNW (times)	1.1	1.3	1.6
Total Debt/ OPBDIT (times)	3.0	3.1	5.0
Interest Coverage (times)	3.0	2.3	2.0

Source: GAI; * Provisionals

Status of non-cooperation with previous CRA: Not Applicable

Any other information: None

Rating history for last three years:

Current Rating (FY2020)				Chronology of Rating History for the past 3 years				
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Date & Rating FY2019		Date & Rating in FY2018		Date & Rating in FY2017
				July 2019	September 2018	October 2017	February 2017	
1 Fund based limits -Cash Credit	Long Term	10.00	-	[ICRA]B+ (Stable)	[ICRA]B+ (Stable)	[ICRA]B+ (Stable)	[ICRA]B+ (Stable)	[ICRA]B+ (Stable)
2 Unallocated limits	Long Term	3.00	-	[ICRA]B+ (Stable)	[ICRA]B+ (Stable)	[ICRA]B+ (Stable)	[ICRA]B+ (Stable)	[ICRA]B+ (Stable)

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	Cash Credit	-	-	-	10.00	[ICRA]B+(Stable)
NA	Unallocated Limits	-	-	-	3.00	[ICRA]B+(Stable)

Source: GAI

ANALYST CONTACTS

K. Ravichandran

+91 44 4596 4301

ravichandran@icraindia.com

R. Srinivasan

+91 44 4596 4315

r.srinivasan@icraindia.com

Sahithya Nekkanti

+91 40 4067 6524

sahithya.nekkanti@icraindia.com

Nithya Debbadi

+91 40 4067 6515

nithya.debbadi@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee

+91 80 4332 6401

jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani

Tel: +91 124 4545 860

communications@icraindia.com

Helpline for business queries:

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

About ICRA Limited:

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.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

ICRA Limited

Corporate Office

Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002

Tel: +91 124 4545300

Email: info@icraindia.com

Website: www.icra.in

Registered Office

1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001

Tel: +91 11 23357940-50

Branches

Mumbai + (91 22) 24331046/53/62/74/86/87

Chennai + (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,

Kolkata + (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,

Bangalore + (91 80) 2559 7401/4049

Ahmedabad+ (91 79) 2658 4924/5049/2008

Hyderabad + (91 40) 2373 5061/7251

Pune + (91 20) 2556 0194/ 6606 9999

© Copyright, 2019 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents