January 30, 2023

Ganesh Grains Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Cash Credit	40.00	83.00	[ICRA]A+ (Stable); reaffirmed
Long-term Fund-based – Term Loans	18.00	-	-
Long-term/Short-term Non Fund-based – Bank Guarantee	30.00	5.00	[ICRA]A+ (Stable)/[ICRA]A1; reaffirmed
Total	**88.00**	**88.00**	

**Instrument details are provided in Annexure-I*

Rationale

The reaffirmation of the ratings considers the established position of Ganesh Grains Limited (GGL, or the company) as one of the major manufacturers of wheat and chana-based products with a strong presence in West Bengal under the Ganesh brand. GGL has a significant market share in the packaged wheat and chana products segment in the state of West Bengal. The management's focus on increasing its sales to the business-to-consumer (B2C) segment, which fetches higher margin than the business-to-business (B2B) segment and the management's strategic decision to stock up inventory at lower prices enabled the company to maintain its profitability metrices in FY2022 despite an increase in raw material prices. GGL's operating margin in the current fiscal is also likely to remain at a level similar to FY2022 as the company has posted an OPM of ~10% in H1 FY2023 (provisional), despite increase in the raw material prices. Out of the various capex undertaken by GGL, one of the sooji (semolina) plants have been successfully commissioned in December 2022 and the one in Agra is expected to start commercial production in February 2023. The spices plant is also expected to be commissioned by February 2023. This will not only lead to product diversification and help increase its scale of operations but also have a positive impact on the company's operating margin. The ratings also factor in GGL's conservative capital structure and healthy debt coverage indicators. The ratings further consider GGL's significant price premium over the unorganised players in the B2C segment. However, intense competition from large, organised players limits the pricing flexibility to an extent including wheat flour. Nevertheless, stable demand from staple food grains market and strong distribution network are likely to support its revenue growth.

The ratings are, however, constrained by the high geographical concentration risk as around 86% of the company's turnover in FY2022 was derived from West Bengal. ICRA notes that GGL's ongoing capex programme for setting up sooji and spice manufacturing facilities has witnessed a time and cost overrun, primarily due to various Covid-19 related challenges and alteration in the scope of the projects, which were not envisaged initially. Timely commissioning of the spices plant in Kolkata and sooji plant in Agra and stabilisation of all the facilities without any further delay would remain critical to build up sales from the new facilities. Additionally, the ratings consider the inherent susceptibility of the company's operations and margins to the prevailing agro-climatic conditions and changes in Government policies.

The Stable outlook reflects ICRA's expectation that GGL will continue to benefit from the established brand presence of Ganesh, particularly in West Bengal, and the planned product diversification and value addition initiatives, which are likely to support revenue growth and profitability, going forward.

Key rating drivers and their description

Credit strengths

Extensive experience of promoters and strong brand presence in West Bengal – GGL was set up as a proprietorship firm in 1936 and has been involved in the manufacturing of wheat and chana-based products for over eight decades. Over the years, GGL's brand, Ganesh, has been able to establish a strong presence in West Bengal with the company holding a considerable market share in the packaged wheat and chana products segment in the state. The company offers a wide range of products such as atta (whole wheat flour), besan (gram flour), maida (refined wheat flour), sattu (roasted gram flour), sooji (semolina), dalia (porridge), instant mixes and cereals.

Financial profile characterised by comfortable profitability indicators, conservative capital structure and strong debt coverage indicators – GGL's profitability indicators have remained comfortable over the past few years, as also reflected by an ROCE of ~25% in FY2022. Despite increase in the raw material costs, the company was able to maintain its operating margin at a comfortable level in FY2022 due to its increased focus on the high-margin B2C business and prudent inventory management. Despite the external borrowings availed to part-fund the capex, the company's capital structure, as reflected by a gearing of 0.25 times as on March 31, 2022, remained comfortable due to adequate net worth and reduction in working capital intensity of operations, which resulted in release of funds. ICRA expects the capital structure to remain conservative, going forward as well. The company's healthy profits at an absolute level along with a moderate debt level led to strong debt protection metrics, as reflected by an interest coverage of 31.0 times, and total debt relative to OPBDITA of 1.0 times as on March 31, 2022.

Significant price premium over unorganised players in B2C sales, however, competition from other established brands limits pricing flexibility to some extent – GGL enjoys a significant price premium over the unorganised players in the B2C segment owing to its superior quality and established brand position. However, the company operates in an intensely competitive and fragmented industry and faces stiff competition from large, organised players, which limits the pricing flexibility to some extent including wheat flour.

Stable demand from staple food grains market; strong distribution network in West Bengal – GGL's market is extremely fragmented, however, the demand is stable with all its products forming essential constituents of the consumers' daily diet. It has built a strong marketing and distribution network in West Bengal, facilitating the company's sales. As GGL sells through direct distributors, sub-distributors, super stockists, wholesale stockists and online sales channels, its customer concentration risk remains on the lower side with the top 10 customers contributing around 23% to the sales in FY2022. It has a strong distribution network of around 700 distributors, sub-distributors, stockists and super stockists. At present, the company is also selling its products through C&F agents, which would enable GGL to reduce its overall freight cost.

Credit challenges

Stabilisation and ramping up of sales from the recently commissioned facility along with commissioning of the remaining facilities without any further cost and time overrun would remain critical – GGL had undertaken capex plans to set up two sooji manufacturing plants – one in West Bengal and another in Uttar Pradesh – along with a spice manufacturing plant in West Bengal. The sooji plant in Kolkata has been commissioned in December 2022, whereas the sooji plant in Agra is expected to be commissioned in February 2023. The spice manufacturing facility is also expected to be commissioned in February 2023. ICRA notes that there has been a time and cost overrun on account of the pandemic-related challenges and change in the scope of the capex. The cost overrun of ~Rs. 14 crore (from Rs. 61.0 crore to Rs. 75 crore) for setting up the sooji plants was funded through internal accrual. No further cost overrun (Rs. 21.0 crore) was witnessed for setting up the spices plant. The term loan along with the one-time short-term loan of Rs. 10.0 crore outstanding as on March 31, 2022 are likely to be repaid by the end of March 2023. ICRA notes that ramping up of operations from the recently commissioned sooji unit and timely commissioning and stabilisation of the remaining facilities would remain critical for sales build-up and improvement in the overall credit profile.

Regional presence gives rise to geographical concentration risks – GGL has a strong regional presence with a healthy market share in West Bengal. The state accounted for around 86% of GGL's total sales in both FY2022 and in H1 FY2023, reflecting geographical concentration risks. However, GGL plans to widen its presence in the other states of eastern India, where they have a strong market hold.

Exposure to agro-climatic risks and changes in Government regulations – As GGL operates in an agro-based industry, it remains exposed to agro-climatic risks such as raw material availability, quality and pricing. Moreover, any changes in Government regulations pertaining to the industry can also have a bearing on the performance of all players in the industry, including GGL.

Liquidity position: Adequate

GGL's liquidity profile remains adequate, marked by healthy fund flow from operations worth ~Rs. 32.6 crore in FY2022 and a significant cushion in the working capital limit, as reflected by an undrawn fund-based working capital limit of Rs. 50.0 crore as on March 31, 2022. Going forward, expected release of loans and advances given to related parties, which stood at ~Rs 30.0 crore as on March 31, 2022, healthy fund flow from operations and likely reduction in the inventory level are likely to support GGL's liquidity position. No long-term debt repayment obligation is expected in FY2024 as the entire long-term debt obligations outstanding as on March 31, 2022 is likely to be repaid by March 2023, which would support GGL's cash flow, going forward.

Rating sensitivities

Positive factors – ICRA could upgrade GGL's ratings if the company demonstrates a significant growth in the top line and profitability on the back of better business diversification.

Negative factors – A significant decline in the turnover and/or margins may lead to a downgrade of ratings. Any significant delay in stabilisation and ramping up of operations of the recently commissioned plant and the projects, which are expected to be operational soon, could also put pressure on the ratings. Any significant deterioration in the liquidity position due to any further sizeable upstreaming of cash to the shareholders may also trigger ratings downgrade. Specific credit metrics that could lead to ratings downgrade include an interest coverage of less than 7.0 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Not applicable
Consolidation/Standalone	The ratings are based on the standalone financial statement

About the company

GGL, promoted by the Kolkata-based Mimani family, is involved in manufacturing and sales of agro-based products like wheat flour (atta, sooji, maida, dalia), gram flour (besan, sattu) and instant mixes. The company markets its products under the Ganesh brand, which has an established presence in West Bengal.

MOPE Investment Advisors Pvt. Ltd. (MOPE), the private equity arm of Motilal Oswal Financial Services Ltd., acquired a 25.71% equity share in GGL in October 2016.

GGL's erstwhile wholly-owned subsidiaries, Shree Venkatesh Agro Foods Private Limited and Gobardhan Agri Flour Mills Private Limited, which are involved in the similar line of business, have been merged with GGL in FY2020.

Key financial indicators (audited)

Standalone	FY2021	FY2022
Operating income	491.0	455.0
PAT	29.3	27.4
OPBDIT/OI	10.8%	9.6%
PAT/OI	6.0%	6.0%
Total outside liabilities/Tangible net worth (times)	0.4	0.4
Total debt/OPBDIT (times)	0.7	1.0
Interest coverage (times)	30.0	31.0

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

Status of non-cooperation with previous CRA:

CRA	Status	Date of Release
CARE	CARE BB; Stable/CARE A4; ISSUER NOT COOPERATING	December 19, 2022
ACUITE	ACUITE BB- (Downgraded from ACUITE BB)/ACUITE A4+ (Reaffirmed); ISSUER NOT COOPERATING	May 20, 2022

Any other information: None

Rating history for past three years

	Instrument	Current rating (2023)				Chronology of rating history for the past 3 years			
		Type	Amount rated (Rs. crore)	Amount outstanding Dec 31, 2022 (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021		Date & rating in FY2020
					Jan 30, 2023	Feb 28, 2022	Jan 08, 2021	Aug 28, 2020	-
1	Fund-based – Cash Credit	Long term	83.00	-	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]BBB (Stable); ISSUER NOT COOPERATING	-
2	Fund-based – Term Loans	Long term	-	-	-	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	-	-
3	Non Fund-based – Bank Guarantee	Long term/ Short term	5.00	-	[ICRA]A+ (Stable)/ [ICRA]A1	[ICRA]A+ (Stable)/ [ICRA]A1	[ICRA]A+ (Stable)/ [ICRA]A1	[ICRA]BBB (Stable)/[ICRA] A3+; ISSUER NOT COOPERATING	-
4	Unallocated Limits	Long term/ Short term	-	-	-	-	-	[ICRA]BBB (Stable)/[ICRA] A3+; ISSUER NOT COOPERATING	-

Amount in Rs. Crore

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term Fund-based – Cash Credit	Simple
Long-term/Short-term Non Fund-based – Bank Guarantee	Very 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	**Long-term Fund-based – Cash Credit**	NA	NA	NA	83.00	**[ICRA]A+ (Stable)**
NA	**Long-term/Short-term Non Fund-based – Bank Guarantee**	NA	NA	NA	5.00	**[ICRA]A+ (Stable)/ [ICRA]A1**

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 1120
jayanta@icraindia.com

Kaushik Das
+91 33 7150 1104
kaushikd@icraindia.com

Sujoy Saha
+91 33 7150 1184
sujoy.saha@icraindia.com

Aman Mundhra
+91 33 7150 1123
aman.mundhra@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

Registered Office

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

Branches