March 20, 2023

Al Gyas Exports Private Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Foreign Documentary Bills for Purchase / Foreign Bill Discounting	100.00	100.00	[ICRA]A4+; reaffirmed
Packing Credit ^	(80.00)	(80.00)	[ICRA]A4+; reaffirmed
Foreign Bill Purchase ^	(35.00)	(35.00)	[ICRA]A4+; reaffirmed
Bills Discounting ^	(30.00)	(30.00)	[ICRA]A4+; reaffirmed
Bank Guarantee	5.00	5.00	[ICRA]A4+; reaffirmed
Total	**105.00**	**105.00**	

**Instrument details are provided in Annexure-I, ^sublimit of Foreign Documentary Bills for Purchase/ Foreign Bill Discounting*

Rationale

The rating reaffirmation of Al Gyas Exports Private Limited (ALGEPL/the company) factors in the demonstrated track record of the company in securing orders for the export of basmati and non-basmati rice from its key customers over the past two decades. With easing of supply-side disruptions that were earlier witnessed in FY2022 that impacted the company's top line growth, ALGEPL's earnings improved in 10M FY2023, supported by favourable demand growth prospects in terms of volume and realisations, which has been able to largely compensate for the trade restrictions that were imposed on the export of non-basmati rice in the current fiscal. The rating also factors in the company's comfortable debt service coverage indicators, aided by a sizeable portion of its funding requirements met through creditors/advances from customers. However, this makes the company's TOL/ TNW[1] remain at an elevated level of 3.0-4.4 times over the last few years.

The rating, however, remains constrained by the thin profit margins owing to the low value addition inherent in the trading nature of the business. The company's liquidity position remains stretched, given the high inventory holding, modest internal accruals, and growing scale, leading to almost full utilisation of the working capital limits. This makes the company vulnerable to any cash-flow timing mismatch arising from any unexpected event. The rating is further constrained by the high customer concentration risk, as around 50-60% of its revenues is derived from a single customer. Any incident leading to termination or non-renewal of contract with this customer would significantly affect the company's financial risk profile. Nevertheless, the company's long relationship with this customer provides comfort to a certain extent. The company's profit margins are likely to remain under pressure due to intense competition in the industry and potential adverse currency movements. However, the company's policy of hedging its forex exposure partly mitigates the risks associated with any adverse movements in exchange rates. Further, any adverse regulatory changes and/or trade policy changes that impact the export of agricultural commodities may adversely impact the business risk profile of ALGEPL.

Key rating drivers and their description

Credit strengths

Established player in agri-exports business led by experienced promoters – Established in 1995 by the Motorwala family, ALGEPL processes and exports agricultural commodities such as basmati and non-basmati rice, sugar, all-purpose flour (maida)

[1] Total Outside Liabilities / Tangible Net Worth

and others. The directors and the key management personnel are well qualified with an experience of around two to three decades in trading of agro products, which has helped the company establish its position in the international market.

Comfortable coverage indicators – The debt coverage indicators remain comfortable as a sizeable portion of its funding requirements is met through creditors/advances from customers. Consequently, the company' interest cover stood at a comfortable level of 3.8 times in FY2022 and is expected to improve to ~5.6 times in FY2023.

Credit challenges

High inventory holding, thin profit margins, and growing scale led to stretched liquidity – Thin profit margins, significant investments in inventory, growing scale of operations, and limited headroom in the working capital lines have strained ALGEPL's liquidity position. This makes the company vulnerable to any cash-flow timing mismatch arising from any unexpected incident. However, ICRA notes that faster collection of receivables (debtor days of 7 in FY2022) and advances from customers/creditors funding have supported its working capital requirements, somewhat moderating the working capital intensity to around 11-12% in the last few years. However, given its healthy business growth over the last few years, the company's dependence on external capital to fund the same has remained high, as reflected in TOL/TNW of 3.1 times in FY2022.

Thin profit margins due to low value addition in business operations – The company's operating profit margin (OPM) remained low at ~2% during the past five years due to the low value-added nature of the business. The OPM improved slightly to 2.3% in FY2022 from 2.0% in FY2021. ICRA expects the operating margin to remain in the range of 2.0-2.5%, going forward, due to the inherent low value additive processes in the trading businesses. ALGEPL's debt profile is largely driven by working capital borrowings, given the limited dependence on external long-term debt. While the capital structure has remained at moderate levels, thin margins have resulted in an adverse Total Debt/ OPBITDA of 4.0-5.0 times in the last few years.

High concentration of sales to a single customer and country – The company's customer concentration remains high as a single export customer accounted for 50-60% of the total revenues over many years. However, 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 repeat orders and receipt of payments in a timely manner.

Margins susceptible to stiff competition and forex risks; forex exposure partly mitigated by forward contracts – ALGEPL faces stiff competition from domestic and international players from Thailand, Vietnam and Pakistan, which limits the pricing flexibility, thereby impacting the profit margins. As exports constitute a significant percentage of the turnover, the company remains exposed to currency fluctuations. However, it has an institutional hedging mechanism in place, which limits the foreign exchange risk to an extent.

Operations vulnerable to regulatory norms on export of traded products – Given the large exports dependence on a single country, the company's operations remain exposed to regulatory risks associated with any adverse changes in trade policies between India and Yemen. Also, ALGEPL is exposed to agro-climatic risks in the key basmati and non-basmati rice paddy producing regions, which could impact the rice paddy, availability and their quality.

Liquidity position: Stretched

ALGEPL's liquidity is stretched, given the high inventory holding needs of the business and limited headroom in the working capital lines. The average utilisation of the sanctioned working capital limits stood at 96% during the last 15 months ending in January 2023. ICRA notes that with an operating profit margin of 2.0-2.5% and NWC/OI of 11-12%, the company would continue to depend on external capital to grow its business, which is likely to constrain ALGEPL's liquidity position, going forward as well. However, limited long-term scheduled debt repayments in the near-to-medium term, as well as advance payments from customers and timely collection of debtors, provides some support to the overall liquidity profile.

Rating sensitivities

Positive factors – ICRA could upgrade ALGEPL's rating if the company demonstrates an improvement in its liquidity profile and diversification of its customer/ geographical sales mix. Further, specific metric that could lead to a rating upgrade is the TOL/TNW being less than 2 times on a sustained basis.

Negative factors – Negative pressure on ALGEPL's rating could arise if revenues and profits decline significantly, due to factors including loss of a strategically important customer, in turn leading to a weakening in coverage indicators. The rating could also come under pressure if the entity's liquidity position deteriorates further on account of delayed receivables. Specific credit metrics which could lead to a downgrade would be a Total Debt/ OPBDITA of above 4.5 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	For arriving at the ratings, ICRA has considered the standalone financials of the issuer

About the company

ALGEPL was incorporated in 1995 as a partnership firm. In 1999, it was converted into a private limited company. The company primarily exports rice to the West Asian and African markets. Its product profile comprises rice (accounted for 94% of total sales in FY2022 and 92% in 9M FY2023), sugar, all-purpose flour (maida) and others. The company sources its products from millers in Andhra Pradesh, Gujarat, Haryana, Punjab, Madhya Pradesh and Uttar Pradesh, through brokers and agents. In FY2022 and 9M FY2023, exports accounted for 97% of ALGEPL's total sales, followed by domestic sales of broken rice.

The company has a marketing office in Mumbai and two rice processing plants at Gandhidham, Gujarat, with a production capacity of 24,000 metric tonnes (MT) of rice per month, with the unit operating at optimum utilisation level.

In FY2021, the company reported a net profit of Rs. 14.1 crore on an operating income (OI) of Rs. 1,190.0 crore against a net profit of Rs. 8.9 crore on an OI of Rs. 955.6 crore in the previous year. In FY2022, ALGEPL had reported a net profit of Rs. 10.4 crore on an OI of Rs. 1,078.7 crore.

Key financial indicators

ALGEPL	FY2021 (Audited)	FY2022 (Audited)	10M FY2023 (Provisional)
Operating income	1,190.0	1,078.7	1,277.7
PAT	14.1	10.35	-
OPBDIT/OI	2.0%	2.3%	-
PAT/OI	1.2%	1.0%	-
Total outside liabilities/Tangible net worth (times)	4.2	3.1	-
Total debt/OPBDIT (times)	4.9	4.4	-
Interest coverage (times)	6.0	3.8	-

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

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2023)					Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as of Jan 30, 2023 (Rs. crore)	Date & rating in FY2023		Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020
					Mar 20, 2023	Jul 29, 2022	Apr 30, 2021	-	Oct 31, 2019
1	Foreign Documentary Bills Purchase / Foreign Bill Discounting	Short Term	100.00	92.2	[ICRA]A4+	[ICRA]A4+	[ICRA]A4+	-	[ICRA]A4+
2	Packing Credit ^	Short Term	(80.00)	-	[ICRA]A4+	[ICRA]A4+	[ICRA]A4+	-	[ICRA]A4+
3	Foreign Bill Purchase ^	Short Term	(35.00)	-	[ICRA]A4+	[ICRA]A4+	[ICRA]A4+	-	[ICRA]A4+
4	Bills Discounting ^	Short Term	(30.00)	-	[ICRA]A4+	[ICRA]A4+	[ICRA]A4+	-	[ICRA]A4+
5	Bank Guarantee	Short Term	5.00	-	[ICRA]A4+	[ICRA]A4+	[ICRA]A4+	-	[ICRA]A4+

Source: Company Data, ^sublimit of Foreign Documentary Bills for Purchase/ Foreign Bill Discounting

Complexity level of the rated instruments

Instrument	Complexity Indicator
Foreign Documentary Bills for Purchase / Foreign Bill Discounting	Simple
Packing Credit ^	Simple
Foreign Bill Purchase ^	Simple
Bills Discounting ^	Simple
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	Foreign Documentary Bills for Purchase / Foreign Bill Discounting	NA	NA	NA	100.00	[ICRA]A4+
NA	Packing Credit ^	NA	NA	NA	(80.00)	[ICRA]A4+
NA	Foreign Bill Purchase ^	NA	NA	NA	(35.00)	[ICRA]A4+
NA	Bills Discounting ^	NA	NA	NA	(30.00)	[ICRA]A4+
NA	Bank Guarantee	NA	NA	NA	5.00	[ICRA]A4+

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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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.

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