January 23, 2023

Tanna Agro Impex Private Limited: Ratings reaffirmed; Outlook revised to Positive from Stable and rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Working Capital Facilities	450.00	475.00	[ICRA]BBB+/[ICRA]A2; reaffirmed; outlook revised to Positive from Stable
Untied Limits	10.00	-	-
Total	**460.00**	**475.00**	

**Instrument details are provided in Annexure-I*

Rationale

The revision in the outlook factors in Tanna Agro Impex Private Limited's (TAIPL) improvement in the operating margin, supported by the backward integration into rice milling and renewal of agreement with Kuwait Supply Company at an attractive rate, which provides revenue visibility till May 2024. TAIPL's efficient working capital management and refinancing of working capital loans at lower rates helped reduce finance charges, which, along with higher operating profits, have helped increase the interest coverage to 6.4 times in FY2022 (from 4.7 times in FY2021). ICRA expects the same to improve further to around 7 times in FY2023. The ratings further factor in the demonstrated track record of the company in securing orders for export of basmati rice from its key customer, which is a sovereign-owned enterprise of the Government of Kuwait, over the past two decades. ICRA notes that TAIPL has been able to consistently maintain a 70-80% market share[1] in the export of basmati rice to Kuwait from India, which reflects its strong reach in its addressable markets. The company's ability to partly pass on the purchase price increases across the crop cycles and timely realisation from its key export customer helped TAIPL maintain healthy profit margin and a comfortable liquidity position. In addition, TAIPL's conservative financial policy, calibrated approach towards growth, and efficient working capital management enabled it to fund a sizeable part of its inventory from internal resources. This has helped in maintaining a sufficient margin of safety to repay the working capital loans even after absorbing a large haircut in liquidating the inventory in case the contract with its key export customer gets abruptly cancelled. Also, the rating derives strength from TAIPL's modest capital structure, along with its comfortable debt coverage indicators.

The ratings are, however, constrained by the high customer concentration risk as around 80-90% of its revenue are 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, long relationship of the company with this customer (spanning over two decades) provides comfort to a certain extent. The ratings are further constrained by the high working capital intensity of the company, arising from the need 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 declining realisations of rice in the subsequent season. Also, 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 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. ICRA notes that TAIPL is exposed to forex risk as a

[1] Source: Ministry of Commerce

sizeable part of the earnings is dollar denominated. However, the company's practice of hedging ~75% of its export receivables using forward and option contracts protects the profit margin from adverse currency fluctuations to some extent.

Key rating drivers and their description

Credit strengths

Structural improvement in cost position following commissioning of enhanced milling capacity – The completion of construction of an additional rice mill facility, which enhanced the company's in-house milling capacity to 450 tonnes per day (TPD) in H2 FY2021 from 250 TPD has reduced TAIPL's dependence on unprocessed rice procurement, leading to savings in operating costs and reducing inventory holding requirement to some extent. Notwithstanding the negative top line growth in FY2021 and FY2022 on account of a reduction in market prices of paddy, which subsequently led to export contracts being negotiated at lower price levels, an increase in the share of own milling led to an improvement in the operating margin to 9.4% in FY2021 and 11.0% in FY2022 from 5.4% in FY2020. This, along with renewal of agreement with Kuwait Supply Company at an attractive rate, provides healthy revenue and profit margin visibility till May 2024.

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 helped the company in gradually growing its business profitably.

Demonstrated ability of supplying basmati rice to its main customer over past two decades – Basmati rice is the major revenue source for the company, contributing more than 95% 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 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.

Modest capital structure and comfortable debt coverage indicators – The company's capital structure remains modest, as reflected by a gearing of 0.3 times as on March 31, 2022. Also, the debt coverage indicators remain comfortable, as evident from an interest coverage of 6.43 times and 21.7 times in FY2022 and 6M FY2023, 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, mitigate the risk of contract termination to an extent. That said, 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.

High working capital intensity – The company's working capital intensity is high, primarily due to high inventory levels, given the seasonality in the availability of the basmati paddy and rice. Besides, the company procures the major portion of its requirement 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 weaker margins in case of a fall in realisations of rice in the subsequent season. That said, the backward integration in FY2022 has helped in reducing the working capital intensity to some extent from FY2021 due to lower inventory holding requirement largely due to timely execution of deliverables.

Intense industry competition; exposure to agro-climatic risks – 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. Also, 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 their quality.

Exposure to foreign exchange risk – As exports constitute a significant percentage of the turnover, the company remains exposed to currency fluctuations to the extent of the unhedged exposure. However, TAIPL has an institutional hedging mechanism in place to reduce any impact of adverse fluctuation in foreign exchange rates.

Liquidity position: Adequate

Timely realisation of payment from customers and a moderation in the working capital intensity following 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 FY2023 despite an increase in paddy prices. Consequently, the company's liquidity has been assessed as Adequate. Though the company's cash and liquid investment balance stood at a nominal Rs. 10.26 crore as on March 31, 2022, the availability of 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 a 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. Specific metric that could lead to a rating upgrade include an interest coverage of more than 6.0 times on a sustained basis.

Negative factors – The ratings could be downgraded if there is a continued pressure on sales volumes or realisations or an 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 metric that could lead to ratings downgrade include an interest coverage of less than 4.0 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

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 meets its basmati rice requirement from the open market as well as its captive rice mills located in Haryana. Its capacity has been increased to 450 MT per day against 250 MT per day in H2 FY2021.

Key financial indicators

TAIPL	FY2021 (Audited)	FY2022 (Audited)	H1 FY2023 (Provisional)
Operating income	1025.1	854.9	427.4
PAT	55.13	58.12	39.63
OPBDIT/OI	9.4%	11.0%	13.3%
PAT/OI	5.4%	6.8%	9.3%
Total outside liabilities/Tangible net worth (times)	1.1	0.3	0.1
Total debt/OPBDIT (times)	4.5	1.7	0.6
Interest coverage (times)	4.7	6.4	21.7

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 Sep 30, 2022 (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020
					Jan 23, 2023	Feb 04, 2022	Jan 29, 2021	Jul 08, 2019
1	Working Capital Facilities	Long Term / Short Term	475.00	52.26	[ICRA]BBB+ (Positive) / [ICRA]A2	[ICRA]BBB+ (Stable) / [ICRA]A2	-	-
2	Fund Based Facilities	Long Term / Short Term	-	-	-	-	[ICRA]BBB+ (Stable) / [ICRA]A2	[ICRA]BBB+ (Stable) / [ICRA]A2
3	Untied Limits	Short Term	-	-	-	[ICRA]A2	-	-
4	Non-fund based bank facilities	Short Term	-	-	-	-	[ICRA]A2	[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]BBB+ (Positive) / [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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About ICRA Limited:

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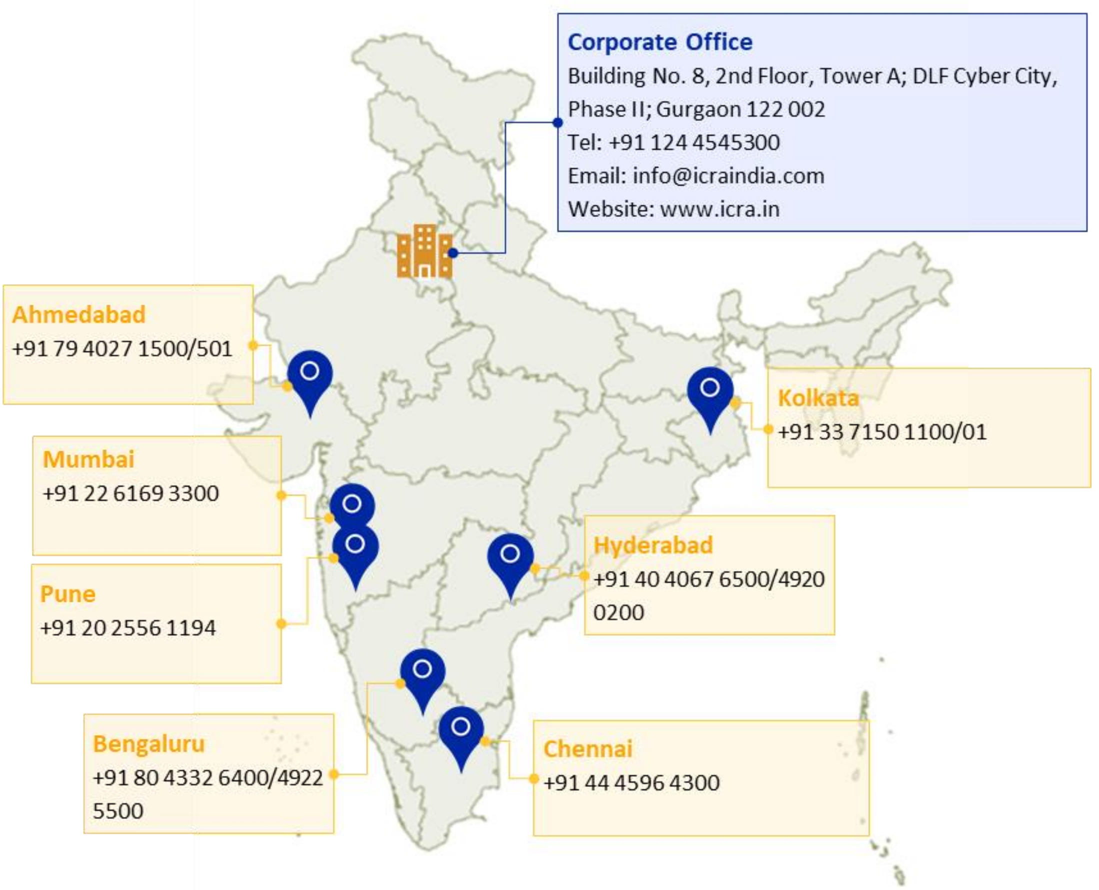

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