

Press Release

Odisha State Civil Supplies Corporation Limited (OSCSCL)

13 June, 2017

Rating Reaffirmed

Total Facilities Rated*	Rs. 8500.00 Cr
Long Term Rating	SMERA A-/Stable (Reaffirmed)
Short Term Rating	SMERA A1 (Reaffirmed)

*Refer Annexure for details

Rating Rationale

SMERA has reaffirmed the long term rating of **SMERA A- (read as SMERA A minus)** and short term rating of **SMERA A1 (read as SMERA A one)** assigned to the Rs. 8500.00 crore bank facilities of Odisha State Civil Supplies Corporation Limited (OSCSCL). The outlook is '**Stable**'.

Odisha State Civil Supplies Corporation Limited (OSCSCL) was set up in 1980 as a wholly owned undertaking of the Government of Odisha (GoO) to procure paddy and supply rice under the Public Distribution System (PDS) in Odisha.

The ratings continue to draw support from the 100 per cent ownership of the Odisha government and systemic importance of OSCSCL to GoO. The ratings continue to be supported by the healthy deficit indicators of GoO coupled with its conservative debt-to-Gross State Domestic Product (GSDP) levels for the last three years.

List of Key Rating Drivers and their detailed description

Strengths:

Ongoing support from the Government of Odisha: OSCSCL is responsible for procurement of paddy and supply of rice to the PDS in Odisha as also for purchase, procurement, storage and delivery of stock to retail dealers in the state. OSCSCL is spread across 30 districts in Odisha and accounts for nearly 60 per cent of the paddy procured in Odisha.

The rating centrally factors in ongoing support from GoO to OSCSCL over the medium term. OSCSCL is a systemically important entity and caters to over 80 per cent of the population in the state. As a result, OSCSCL continues to receive operational, managerial and financial support from GoO from time to time. OSCSCL is also the nodal agency for several schemes of GoO (Annapurna, APL Rice and APL wheat scheme).

OSCSCL provides food grains (mainly rice) to the PDS at a concessional rate. Any shortfall is compensated in the form of transfer payments (subsidies & grants) from the state government as also the centre. The board of directors of OSCSCL comprises appointees by the state government. The operations are supervised by the Food Supplies and Consumer Welfare Department of the GoO.

SMERA also expects GoO to continue to support the corporation over the medium term on account of the adverse implications of default by OSCSCL on the overall credit profile and resource mobilisation ability. Any default shall impinge upon the ability of GoO and its undertakings' to mobilise resources from financial institutions and capital markets.

OSCSCL is able to mobilise resources from banks and financial institutions at a low cost owing to the 100 per cent ownership of GoO. The corporation avails facilities of about Rs. 8,500 crore from banks. The average utilisation stood at ~ 85 per cent for the last six months.

SMERA believes that OSCSCL will continue to receive financial and operational support from GoO over the medium term owing to the 100 per cent ownership of GoO, socio-economic importance of OSCSCL to Odisha and adverse implications of its default on the credit profile of GoO and its undertakings. Changes in the ownership pattern, deterioration in the credit profile of GoO and/or challenges in receiving timely financial support can adversely impact OSCSCL's credit risk profile over the near to medium term.

About the Government of Odisha

As reported by the Comptroller & Auditor General (CAG), GoO's the Debt-to-Gross State Domestic Product (GSDP) ratio of the state stood at 18.60 per cent as on 31 March, 2016. The revenue surplus of the state stood at 3 per cent of the GSDP in FY2016 while the fiscal deficit remained comfortable at 2 per cent of the GSDP in FY2016 – within the FRBM targets.

Weaknesses:

Weak standalone financial risk profile: OSCSCL is required to distribute rice and other grains at a concessional rate and free of cost to certain sections of society. In order to serve the welfare objectives, the corporation continues to be dependent on timely infusion of funds by the central and state government to service its debt obligations in a timely manner.

OSCSCL reported a small networth base of Rs. 19.41 crore on 31 March, 2016 (Provisional) as against Rs. 36.69 crore on 31 March, 2015. The decline in networth was on account of write-down of certain capital reserves by the corporation in FY2015-16. The gearing stood at 376.66 times on 31 March, 2016 (Provisional) as compared to 191.34 times on 31 March, 2015 on account of the elevated debt levels required to fund its inventory of rice and other commodities. The corporation reported increase in total debt levels to Rs. 7,311 crore on 31 March, 2016 (Provisional) from Rs. 7,021 crore on 31 March, 2015. This was on account of increase in inventory to Rs. 5,847 crore as on 31 March, 2016 (Provisional) from Rs. 5,102 crore as on 31 March, 2015. OSCSCL's borrowings comprise working capital debt from various financial institutions.

SMERA expects OSCSCL's financial risk profile to remain subdued over the medium term. The corporation is expected to remain dependent on timely support from GoO to service its debt obligations over the near to medium term.

Exposure to regulatory risks: SMERA believes that changes in the regulatory framework surrounding rice and grain distribution and the PDS system can adversely affect OSCSCL's operations as also its credit profile over the near to medium term.

Analytical approach: SMERA has taken a standalone view of the above entity. The rating has been notched up based on the ongoing support from GoO to OSCSCL.

Applicable Criteria

- Manufacturing Entities: <https://www.smera.in/criteria-manufacturing.htm>
- State Government Support: <https://www.smera.in/criteria-gov.htm>
- Default Recognition: <https://www.smera.in/criteria-default.htm>
- Application of Financial Ratios and Adjustments: <https://www.smera.in/criteria-fin-ratios.htm>

Outlook: Stable

SMERA believes that OSCSCL will maintain a stable outlook on account of the continued financial and operational support from the GoO. The outlook may be revised to 'Positive' in case of improvement in the fiscal deficit indicators coupled with decline in overall debt levels of GoO. The outlook may be revised to 'Negative' in case of delays in receiving support from GoO or adverse changes in its financial risk profile.

About the Rated Entity

OSCSCL was set up in 1980 as a wholly owned undertaking of the Government of Odisha (GoO) to procure paddy and supply rice under the Public Distribution System (PDS) in Odisha.

The corporation reported zero net profit in FY2016 (Provisional) and in FY2015 against operating income of Rs. 7,996.30 crore in FY2016 and Rs. 7,798.05 crore in FY2015.

Status of non-cooperation with previous CRA (if applicable): Not Applicable

Any other information: NA

Rating History for the last three years:

Name of Instruments	FY2018 (Current)			FY2017		FY2016		FY2015	
	Scale	Amount (Rs. Crore)	Rating with Outlook	Date	Rating	Date	Rating	Date	Rating
Cash Credit	LT	7,500.00	SMERA A-/Stable (Reaffirmed)	-	-	08 Mar, 2016	SMERA A-/Stable (Assigned)	-	-
Short Term Loan	ST	1,000.00	SMERA A1 (Reaffirmed)	-	-	08 Mar, 2016	SMERA A1 (Assigned)	-	-

***Annexure – Details of instruments rated:**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/ Outlook
Cash Credit	N.A	N.A	N.A	7,500.00	SMERA A-/Stable (Reaffirmed)
Short Term Loan	N.A	N.A	N.A	1,000.00	SMERA A1 (Reaffirmed)

Note on complexity levels of the rated instrument:
<https://www.smerra.in/criteria-complexity-levels.htm>
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ABOUT SMERA

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