

Press Release

Odisha State Civil Supplies Corporation Limited

October 01, 2021

Rating Reaffirmed



Total Bank Facilities Rated*	Rs. 17500 Cr. (Limit enhanced from Rs 14000 Cr)
Long Term Rating	ACUITE A-/Stable (Reaffirmed)
Short Term Rating	ACUITE A1 (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuite has reaffirmed the long-term rating of **'ACUITE A-' (read as ACUITE A minus)** and the short-term rating of **'ACUITE A1' (read as ACUITE A one)** to the Rs.17,500.00 Cr bank facilities of Odisha State Civil Supplies Corporation Limited (OSCSCL). The outlook is **'Stable'**.

The ratings continue to reflect the strong financial and operational linkage of OSCSCL with State Government of Odisha (GoO). OSCSCL is strategically important to the state as the company is a nodal agency for distribution of rice and food grain to weaker section of the society. The Central and State government compensates for the entire losses of OSCSCL after taking into account all the revenue generated and expenses incurred in the form of subsidies and grants. However, these strengths are partly offset by OSCSCL's weak financial profile and high working capital requirement.

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. OSCSCL acts as an agent of the Government of Odisha and handles the responsibilities of purchase, procurement, storage and delivery of the stock to the retail dealers.

Analytical Approach:

Acuite has considered the standalone business and financial risk profile of OSCSCL and notched up the standalone rating by factoring in the strong operational and financial support extended by GoO. This is because GoO holds the 100 percent stake in OSCSCL and board comprises representatives from GoO.

Key Rating Drivers:

Strengths

Support from the Central and Government of Odisha

OSCSCL is responsible for procurement of paddy and supply of rice to Odisha under public distribution system. OSCSCL acts as an agent of the Government of Odisha (GoO) and handles the responsibilities of purchase, procurement, storage and delivery of the stock to the retail dealers in the state. OSCSCL is also the nodal agency for several schemes of GoO (Annapurna, APL Rice and APL wheat scheme). OSCSCL distributes rice and other grains at a concessional rate and free of cost to weaker sections of society. The Central and state Government extends financial support to the company at regular interval in order to meet the losses. OSCSCL is spread across 30 districts in Odisha and accounts for nearly 60 percent of the paddy procured in Odisha. OSCSCL is a systemically important entity and caters to over 80 percent of the population in the state. Hence, in the absence of the company's operations, procurement from farmers will get impacted. As a result, OSCSCL continues to receive operational, managerial and financial support from GoO from time to time. 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. Hence, the rating derives comfort from the ongoing support in the form of subsidy from GoO to OSCSCL over the medium term.

Odisha has been one of the fastest growing states in India with a low debt to gross state domestic product of 20.90 percent in 2020-21 as compared to many other states. While the state's revenue surplus continues to be at 1.79 percent its fiscal deficit stood at 13.6 percent in 2020-21 as per revised estimates. The GoO has

significantly increased its focus on increasing industrial development in the state. It is also focusing on asset creation towards infrastructure and social sectors.

Acuité expects GoO to continue to support OSCSCL over the medium term on account of the adverse implications of default by OSCSCL on the overall credit profile and resource mobilization ability. Any default shall impinge upon the ability of GoO and its undertakings' to mobilize resources from financial institutions and capital markets. OSCSCL is able to mobilize resources from banks and financial institutions at a low cost owing to the 100 percent ownership of GoO.

Healthy scale of operation

OSCSCL has operations in all 30 districts of Orissa. Paddy is procured through commission agents like Primary Agriculture Co-operative Societies (PACS), Women Selfhelp groups (WSHGS) and Pani Panchayats (PPs). Total number commission agents associated with the company is 2579. The paddy directly goes to custom millers for processing (Number of rice millers registered with the company is 1558). The revenue of the company (including subsidy) stood at Rs 12877.70 Cr in FY20(Provisional) as compared Rs 8981.39 Cr in FY19(Provisional).

Weaknesses

Weak financial risk profile

The weak financial risk profile of the company is marked by its moderate net worth, high gearing ratio and weak debt protection metrics. The net worth stood at Rs.28.02 Cr as on 31st March 2020(Provisional) as compared to Rs 20.93 Cr in the previous year. The gearing of the company stood at 456.45 times as on 31st March 2020(Provisional) as against 522.29 times as on 31st March, 2019. The total debt of Rs. 12788.61 Cr in FY2020 includes only short term borrowing. TOL/TWN stood at 534.42 times in FY20(Provisional) as against 607.24 times in FY19. The interest coverage ratio stood weak at 1.00 times as on 31st March, 2020(Provisional). Acuité believes the financial risk profile will continue to remain weak because of high dependence on external debt.

Working capital intensive operations

The operations of the company are working capital intensive as reflected from its Gross Current Asset (GCA) days. The GCA days stood high at 424 days in FY20(Provisional) as against 512 days in FY19 because of decline in Inventory days. In FY20, Inventory days stood at 238 days as against 300 days in FY19(Provisional). Debtor days stood at 73 days in FY20 as against 67 days in FY19. Acuité believes the working capital management of the company will remain at similar levels over the medium term due to high inventory days.

Rating Sensitivity

- Timely Support from the Government of Odisha
- Efficient Working capital management
- Improvement in financial risk profile by lower reliance on borrowings

Material Covenant

None

Liquidity Position: Adequate

OSCSCL has adequate liquidity profile reflected from net cash accrual of Rs 1.77 Cr in FY20(Provisional) against no debt repayment obligation. The company has high cash & bank balance of Rs 832.65 Cr as on 31.03.2020. Current ratio stood at 1.04 times in FY20 as against 0.76 in FY19. However the company has high working capital requirement as reflected from its GCA days of 424 days in FY20 (Provisional) as against 512 days in FY19(Provisional). Acuité believes that the liquidity of the company is likely to remain adequate over the medium term backed by steady inflow of subsidy from Central government and GoO.

Outlook: Stable

Acuité 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 - Key Financials

	Unit	FY20 (Provisional)	FY19 (Provisional)
Operating Income	Rs. Cr.	12877.70	8981.39
PAT	Rs. Cr.	0	0
PAT Margin	(%)	0	0
Total Debt/Tangible Net Worth	Times	456.45	522.29
PBDIT/Interest	Times	1	1

Status of non-cooperation with previous CRA (if applicable)

NA

Any other information

None

Applicable Criteria

Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>

Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>

Group and Parent Support - <https://www.acuite.in/view-rating-criteria-47.htm>

Public finance- State Government Ratings - <https://www.acuite.in/view-rating-criteria-26.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Upto last three years):

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
10 June 2020	Cash Credit	Long term	9500	ACUITE A-/Stable (Reaffirmed)
	Short term loan	Short term	2500	ACUITE A1 (Reaffirmed)
	Working capital demand loan	Short term	2000	ACUITE A1 (Assigned)
01 April 2019	Cash Credit	Long term	9788	ACUITE A-/Stable (Reaffirmed)
	Short term loan	Short term	2000	ACUITE A1 (Reaffirmed)
	Proposed Short term loan	Short term	212	ACUITE A1 (Assigned)
24 September 2018	Cash Credit	Long term	7500	ACUITE A-/Stable (Reaffirmed)
	Short term loan	Short term	1000	ACUITE A1 (Reaffirmed)

*Annexure – Details of instruments rated

Lender Name	Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr)	Ratings/Outlook
State Bank of India	Cash Credit	Not Applicable	Not Applicable	Not Applicable	900	ACUITE A-/Stable (Reaffirmed)
Odisha State Cooperative Bank Limited	Cash Credit	Not Applicable	Not Applicable	Not Applicable	1000	ACUITE A-/Stable (Reaffirmed)

Utkal Gramin Bank	Cash Credit	Not Applicable	Not Applicable	Not Applicable	146	ACUITE A- /Stable (Reaffirmed)
UCO Bank	Cash Credit	Not Applicable	Not Applicable	Not Applicable	1700	ACUITE A- /Stable (Reaffirmed)
Bank of India	Cash Credit	Not Applicable	Not Applicable	Not Applicable	3500	ACUITE A- /Stable (Reaffirmed)
National Bank for Agriculture and Rural Development	Short Term Loan	Not Applicable	Not Applicable	Not Applicable	5500	ACUITE A1 (Reaffirmed)
Punjab National Bank	Working Capital Demand Loan	Not Applicable	Not Applicable	Not Applicable	4000	ACUITE A- /Stable (Reaffirmed)
Not Applicable	Proposed Short Term Loan	Not Applicable	Not Applicable	Not Applicable	754	ACUITE A1 (Reaffirmed)

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About Acuité Ratings & Research:

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