

Press Release

Odisha State Civil Supplies Corporation Limited

December 23, 2022



Rating Assigned, Reaffirmed and Upgraded

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	2680.00	ACUITE A Stable Assigned	-
Bank Loan Ratings	12600.00	ACUITE A Stable Upgraded	-
Bank Loan Ratings	4900.00	-	ACUITE A1 Reaffirmed
Total Outstanding Quantum (Rs. Cr)	20180.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has assigned and upgraded the long- term rating to '**ACUITE A**' (read as **ACUITE A**) from '**ACUITE A-**' (read as **ACUITE A minus**) and reaffirmed the short-term rating of '**ACUITE A1**' (read as **ACUITE A one**) to the Rs.20,180.00 Cr bank facilities of Odisha State Civil Supplies Corporation Limited (OSCSCCL). The outlook is '**Stable**'.

Rationale for the rating

The rating upgrade is driven by an improvement in the fiscal profile of the Government of Odisha, which along with the Central Government continues to provide significant support to OSCSCCL by compensating for the entire losses of the company after taking into account all the revenue generated and expenses incurred in the form of subsidies and grants. Further, the rating continues to reflect the strong financial and operational linkage of OSCSCCL with State Government of Odisha (GoO), as the company is strategically important to the state and it acts as a nodal agency for distribution of rice and food grain to weaker section of the society. However, these strengths are partly offset by OSCSCCL's weak financial profile and high working capital requirement.

About the Company

Odisha State Civil Supplies Corporation Limited (OSCSCCL) 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. OSCSCCL 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 OSCSCCL 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 OSCSCCL and

board comprises representatives from GoO.

Key Rating Drivers

Strengths

Support from the 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 and is the sixteenth-largest state economy in India with gross state domestic product (GSDP) growing at 6 per cent in 2021-22. In 2021-22, as per the revised estimates, fiscal deficit is expected to be 0.38% of GSDP, significantly lower than the budget estimate of 3.49% of GSDP. Further, in 2021-22, the state is estimated to observe a revenue surplus of 3.29% of GSDP as per revised estimates, higher than revenue surplus of 1.03% of GSDP estimated at the budget stage. Moreover, in the time of pandemic, in FY21 RE, the debt as a proportion of GSDP at 20.9 per cent is better than most states of India. GoO has significantly increased its focus on industrial development in the state given the availability of mineral resources, which gets reflected from the high growth in FDI inflows onto the state.

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 operations

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 17482.10 Cr in FY22 (Provisional) as compared Rs 12238.70 Cr in FY21 (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.31.56 Cr as on 31st March 2022 (Provisional). Gearing of the company stood at 601.41 times as on 31st March 2022(Provisional) as against 468.64 times as on 31st March, 2021(Provisional). The interest coverage ratio stood weak at 1.00 times as on 31st March, 2022(Provisional).Acuité believes

the financial risk profile will continue to remain weak because of high dependence on external debt.

Working capital intensive nature of operations

The working capital intensive nature of operations of the company is marked by the high Gross Current Asset (GCA) days of 464 days as on March 31, 2022 (Provisional) as against 226 days as on March 31, 2021 (Provisional). The high GCA days is high primarily on account of a high proportion of Other Current Assets consisting of amount receivables from Government and Government agencies and advances to suppliers. Further, the debtor days stood high at 228 days as on March 31, 2022 (Provisional) as compared to 89 days in as on March 31, 2021 (Provisional). The inventory days stood high at 303 days as on March 31, 2022 (Provisional) as compared to 456 days as on March 31, 2021 (Provisional). Going forward, Acuité believes that the working capital operations of the company will remain at same level as evident from stretched collection mechanism and inventory levels over the medium term.

ESG Factors Relevant for Rating

Environment: GHG emissions, air pollutant emissions, environmental management and energy efficiency are significant environmental issues in the logistics and supply chain industry. Additionally, key material issues such as waste management, water efficiency and pollution can influence the environmental scores.

Social: Developing & supporting the surrounding communities and employee safety is a key social issue in the warehousing and support activities for transportation industry. Additionally, key material issues such as human rights, employment quality, employee development, product quality & responsibility and data & privacy have a significant impact on the social scores for this industry.

Governance: This industry is highly exposed to governance risks associated with regulatory compliance, board oversight, business ethics and corrupt practices. Furthermore, inadequate anti-takeover mechanism, management & board compensation, board independence & diversity, audit committee functioning, financial audit & control and shareholders' rights are the key material issues for this industry.

Rating Sensitivities

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

Material covenants

None

Liquidity Position: Adequate Adequate

OSCSCL has adequate liquidity profile reflected from net cash accrual of Rs 2.49 Cr in FY22(Provisional) against no debt repayment obligation. The company has high cash & bank balance of Rs. 552.89 Cr as on March 31, 2022 (Provisional). The current ratio stood at 1.00 times as on March 31, 2022 (Provisional) as against 1.02 as on March 31, 2021 (Provisional). However, the company has high working capital requirement as reflected from its GCA days of 464 days as on March 31, 2022 (Provisional) as against 226 days as on March 31, 2021 (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.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 22 (Provisional)	FY 21 (Provisional)
Operating Income	Rs. Cr.	17482.10	12238.70
PAT	Rs. Cr.	0.00	0.00
PAT Margin	(%)	0.00	0.00
Total Debt/Tangible Net Worth	Times	601.41	468.64
PBDIT/Interest	Times	1.00	1.00

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

None

Any other information

None

Applicable Criteria

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

In order to inform the investors about complexity of instruments, Acuite has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in.

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
01 Oct 2021	Working Capital Demand Loan	Long Term	4000.00	ACUITE A- Stable (Reaffirmed)
	Cash Credit	Long Term	3500.00	ACUITE A- Stable (Reaffirmed)
	Cash Credit	Long Term	1000.00	ACUITE A- Stable (Reaffirmed)
	Cash Credit	Long Term	1700.00	ACUITE A- Stable (Reaffirmed)
	Short Term Loan	Short Term	5500.00	ACUITE A1 (Reaffirmed)
	Proposed Bank Facility	Short Term	754.00	ACUITE A1 (Reaffirmed)
	Cash Credit	Long Term	146.00	ACUITE A- Stable (Reaffirmed)

	Cash Credit	Long Term	900.00	ACUITE A- Stable (Reaffirmed)
10 Jun 2020	Cash Credit	Long Term	9500.00	ACUITE A- Stable (Reaffirmed)
	Short Term Loan	Short Term	2500.00	ACUITE A1 (Reaffirmed)
	Working Capital Demand Loan	Short Term	2000.00	ACUITE A1 (Assigned)
01 Apr 2019	Cash Credit	Long Term	9788.00	ACUITE A- Stable (Reaffirmed)
	Short Term Loan	Short Term	2000.00	ACUITE A1 (Reaffirmed)
	Proposed Short Term Loan	Short Term	212.00	ACUITE A1 (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Odisha State Co-operative Bank Ltd.	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	1000.00	ACUITE A Stable Upgraded
UCO Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	1700.00	ACUITE A Stable Upgraded
Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	4000.00	ACUITE A Stable Upgraded
Utkal Gramin Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	146.00	ACUITE A Stable Upgraded
State Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	1254.00	ACUITE A Stable Upgraded
State Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	746.00	ACUITE A Stable Assigned
Indian Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	1250.00	ACUITE A Stable Assigned
Bank of Baroda	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	354.00	ACUITE A Stable Assigned
Odisha Gramya Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	330.00	ACUITE A Stable Assigned
National Bank for Agriculture and Rural Development (NABARD)	Not Applicable	Short-term Loan	Not Applicable	Not Applicable	Not Applicable	Simple	4900.00	ACUITE A1 Reaffirmed
Punjab National Bank	Not Applicable	Working Capital Demand Loan (WC DL)	Not available	Not available	Not available	Simple	4500.00	ACUITE A Stable Upgraded

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About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI) for Bank Loan Ratings under BASEL-II norms in the year 2012. Acuité has assigned ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

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