

Press Release

GRM Overseas Limited

January 16, 2019

Rating Upgraded and Withdrawn



Total Bank Facilities Rated*	Rs. 220.00 Cr.
Long Term Rating	ACUITE BBB / Outlook: Stable (Upgraded from ACUITE BBB- /Stable)
Short Term Rating	ACUITE A3+

* Refer Annexure for details

Rating Rationale

Acuité has upgraded long-term rating to '**ACUITE BBB**' (read as **ACUITE triple B**) from '**ACUITE BBB-**' (read as **ACUITE triple B minus**) and short term rating to '**ACUITE A3+**' (read as **ACUITE A three plus**) from '**ACUITE A3**' (read as **ACUITE A three**) to the Rs. 220.00 crore bank facilities of GRM Overseas Limited (GOL). The outlook is '**Stable**'.

Further, Acuité has withdrawn long-term rating of '**ACUITE BBB**' (read as **ACUITE triple B**) to the Rs. 1.50 crore bank facilities of GOL.

The rating has been upgraded on account of continuous increase in revenues, and improvement in working capital management of the company. The company has demonstrated healthy growth with a CAGR of 61.25 percent for last three years ending FY2018. The company has registered revenue of Rs.924.96 crore for FY2018 as against Rs. 591.15 crore for FY2017. Further, the company has registered revenues of Rs.394.93 crore for 6MFY2019. The working capital of the company has improved in FY2018 over FY2017 marked by working capital days of 130 in FY2018 as against 156 in the previous year. Acuité believes that the company will maintain its financial risk profile and working capital management in near to medium term.

GOL was incorporated in 1994 as a private limited company by Mr. H. C. Garg and his son, Mr. Rohit Garg. Later in 1995, the constitution was changed to public limited company. The company is engaged in the milling and processing of basmati rice with installed capacity of 180,000 metric tons per annum. The company operates from its single processing unit based at Panipat (Haryana). The company exports ~95 percent of its total sales to countries such as Iran, Iraq, Middle East and some parts of Europe. The company is also listed on Bombay Stock Exchange (BSE).

Analytical Approach

Acuité has considered the standalone business and financial risk profile of GOL to arrive at the rating.

Key Rating Drivers

Strengths

- **Experienced management and long track record of operations:**

GOL was incorporated in 1994 and is engaged in processing and milling of basmati rice. Backed by long standing track record of more than two decades in the said industry, the promoters, Mr. H.C. Garg and his son, Mr. Rohit Garg have experience of over two decades in the rice milling industry. Acuité believes that the company will benefit from its experienced management which helps the company maintain long standing relations with its customers and suppliers.

- **Moderate financial risk profile:**

The financial risk profile of GOL is moderate marked by moderate net worth, debt protection metrics and leverage ratios. The tangible net worth of GOL stood at Rs. 49.64 crore as on 31 March, 2018 as against Rs. 40.13 crore as on 31 March, 2017. Gearing (debt-equity) stood high at 5.88 times as on 31 March, 2018 as against 4.94 times in the previous year. The total debt as on 31 March, 2018 of Rs.291.82 crore comprises unsecured loan of Rs.57.04 crore, working capital limits of Rs.233.48 crore and term loan outstanding of Rs.1.30 crore. The coverage indicators stood moderate marked

by interest coverage ratio (ICR) at 2.37 times in FY2018 as against 2.06 times in the previous year. The debt service coverage ratio (DSCR) stood at 1.93 times in FY2018 as compared to 1.76 times in FY2017. Total outside liabilities to tangible net worth (TOL/TNW) stood high at 7.21 times as on 31 March, 2018 as against 6.40 times in the previous year. Acuite believes that the financial risk profile of the company will remain moderate in the absence of any major debt funded capex and backed by healthy net cash accruals.

• Improvement in Revenues:

The company has demonstrated healthy revenue scalability which has grown at a CAGR of 61.25 percent for last three years ending FY2018. The company has registered revenues of Rs.924.96 crore for FY2018 as against Rs.591.15 crore for FY2017. Further, the company has registered revenues of Rs.394.93 crore for 6MFY2019. The revenues have increased backed by healthy orders and new geographical reach of the company. Going forward, Acuite believes that the company will maintain its scalability.

• Improvement in working capital:

The working capital management of the GOL has improved in FY2018 over FY2017 backed by improvement in Gross Current Assets (GCA) to 151 days for FY2018 from 171 days for FY2017. The improvement in GCA is mainly dominated by decrease in inventory to 80 days for FY2018 from 128 days for FY2017. Further, the average working capital utilisation stood at 46 percent for the last six months ending November 2018. Acuite believes that efficient working capital management will be crucial to the company in order to maintain a stable credit profile.

Weaknesses

• Agro climatic risk and inventory risk:

Paddy, the main raw material required for rice is a seasonal crop and production of the same is highly dependent upon the monsoon season. Thus, inadequate rainfall may affect the availability of paddy under adverse weather conditions. Conversely, overstocking leads to a significant quantity of paddy/rice in inventory and exposes the company to inventory pricerisk.

• Risk related to economic conditions of the export countries and foreign exchange:

The company is engaged in the milling and processing of rice and is exporting the same to Iran, Iraq, Dubai and Middle East. This exposes the company to the risks related to economic conditions of the export countries. Any slowdown in the economic conditions of these countries may adversely impact the orders inflow of the company. The profitability margins remain susceptible to fluctuations in foreign exchange rates. They have hedged nearly 60 percent of the procurement in forward contracts but it still represents a significant risk.

Outlook: Stable

Acuite believes that GOL will maintain a 'Stable' business risk profile over the medium term. The company will continue to benefit from its experienced management. The outlook may be revised to 'Positive' in case the company registers higher-than-expected revenues while achieving sustained improvement in operating margins, capital structure and working capital management. Conversely, the outlook may be revised to 'Negative' in case of decline in the company's revenues or profit margins, or in case of deterioration in the company's financial risk profile and liquidity position.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	924.96	591.15	355.72
EBITDA	Rs. Cr.	34.88	20.31	14.18
PAT	Rs. Cr.	11.68	5.59	2.05
EBITDA Margin	(%)	3.77	3.44	3.99
PAT Margin	(%)	1.26	0.95	0.58
ROCE	(%)	11.25	8.96	14.47
Total Debt/Tangible Net Worth	Times	5.88	4.94	3.83
PBDIT/Interest	Times	2.37	2.06	1.55
Total Debt/PBDIT	Times	8.37	9.77	9.33

Gross Current Assets (Days)	Days	151	171	165
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Status of non-cooperation with previous CRA (if applicable)

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
24-Oct-2017	Term Loan	Long Term	1.50	ACUITE BBB- / Stable (Reaffirmed)
	Packing Credit	Short Term	106.00	ACUITE A3 (Reaffirmed)
	Standby Line of Credit	Long Term	19.00	ACUITE BBB- / Stable (Assigned)
	Proposed Bank Facility	Long Term	93.50	ACUITE BBB- / Stable (Assigned)
29-Sep-2017	Term Loan	Long Term	1.50	ACUITE BBB- / Stable (Assigned)
	Packing Credit	Short Term	21.50	ACUITE A3 (Assigned)

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
PC/PCFC	Not Applicable	Not Applicable	Not Applicable	82.00	ACUITE A3+ (Upgraded from ACUITE A3)
Stand By Line of Credit	Not Applicable	Not Applicable	Not Applicable	15.00	ACUITE BBB / Stable (Upgraded from ACUITE BBB- / Stable)
PC/PCFC	Not Applicable	Not Applicable	Not Applicable	24.00	ACUITE A3+ (Upgraded from ACUITE A3)
Stand By Line of Credit	Not Applicable	Not Applicable	Not Applicable	4.00	ACUITE BBB / Stable (Upgraded from ACUITE BBB- / Stable)
Proposed	Not Applicable	Not Applicable	Not Applicable	95.00	ACUITE A3+ (Upgraded from ACUITE A3)
Term Loan	Not Applicable	Not Applicable	Not Applicable	1.50	ACUITE BBB (Withdrawn)

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About Acuité Ratings & Research:

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