

## Press Release

### GRM Overseas Limited

August 17, 2022



### Rating Assigned and Upgraded

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	18.00	-	ACUITE A2   Assigned
Bank Loan Ratings	19.00	ACUITE BBB+   Stable   Upgraded	-
Bank Loan Ratings	201.00	-	ACUITE A2   Upgraded
Total Outstanding Quantum (Rs. Cr)	238.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

### Rating Rationale

Acuite has upgraded long-term rating to '**ACUITE BBB+**' (read as **ACUITE triple B plus**) from '**ACUITE BB**' (read as **ACUITE double B**); Issuer not co-operating and short term rating to '**ACUITE A2**' (read as **ACUITE A two**) from '**ACUITE A4+**' (read as **ACUITE A four plus**); Issuer not co-operating on the Rs. 220.00 crore bank facilities of GRM Overseas Limited (GOL). The outlook is '**Stable**'.

Acuite has also assigned short term rating of '**ACUITE A2**' (read as **ACUITE A two**) on the Rs. 18.00 crore bank facilities of GRM Overseas Limited (GOL).

### Rationale for rating upgrade and assigned

The rating upgrade and assigned of GOL takes into account significant improvement in the company's scale of operations and healthy financial risk profile. It also draws comfort from company's experienced management and established brand presence in the agri food industry. The rating is however constrained by the company's working capital intensive operations and foreign exchange fluctuation risk. Ability of the company to maintain its scale of operations while maintaining its profitability and ability to improve its working capital cycle will remain a key rating sensitivity factor.

### About the Company

GOL was incorporated in the year 1994 as a private limited company by Mr. Hukam Chand Garg and his son Mr. Rohit Garg. Later, in 1995 it was incorporated to limited company. The company is engaged in the milling and processing of basmati rice with an installed capacity of 4,40,800 metric tonnes per annum at Panipat, Haryana.

### Analytical Approach

The team has consolidated the business and financial risk profiles of GOL with its three subsidiaries GRM International Holding Ltd. (GIHL, UK), GRM Fine Foods Inc. (GFFI, USA) &

GRM Foodkraft Pvt. Ltd. (GFPL, India). The consolidation is in view of common management, operational & financial linkages between the entities.  
Extent of consolidation: Full.

## **Key Rating Drivers**

### **Strengths**

**Experienced management and established brand presence in the agri food industry**  
GOL incorporated in the year 1994 is a part of GRM Rice which got established in the year 1974 and is India's third largest rice exporter. It has established itself as a quality Basmati rice producer and supplier in more than 38 countries through a wide network of sales and distribution offices in the UK, USA & Middle East. The company has tied up with 1800 stores globally such as ASDA Walmart (UK), T.J. Morris (UK), B&M (UK), Albert Heijn (Holland), Metro (Poland), Carrefour (UAE) amongst others to reach its customers. The company was founded by Mr. Hukam Chand Garg and is currently promoted by his son Mr. Atul Garg. The promoters have rich experience of more than 45 years in the agri food industry. Over the years, company has developed long standing relationship with its customers and suppliers.

Acuité believes that GOL will continue to benefit from its experienced management, established brand presence and long standing relationship with its customers and suppliers.

### **Healthy financial risk profile**

Financial risk profile of GOL is healthy marked by healthy network, moderate gearing and healthy debt protection metrics. The network of the company has improved to Rs.204 Cr as on 31 March, 2022 as against Rs.133 Cr as on 31 March, 2021 on account of healthy accretion to reserves and increase in paid up share capital. The gearing (debt-equity) has increased to 1.66 times as on 31 March, 2022 as against 1.41 times as on 31 March, 2021 due to an increase in short term borrowings. The gearing of the company is however expected to improve and remain low over the medium term on account of absence of any debt funded capex plans in the future. The total debt of Rs.339 Cr as on 31 March, 2022 consists of long term bank borrowings of Rs.1 Cr, unsecured loans from directors of Rs.85 Cr and short term working capital limit of Rs.253 Cr.

The interest coverage ratio stood high at 9.99 times for FY2022 as against 6.27 times for FY2021. The DSCR also stood high at 7.66 times for FY2022 as compared to 4.97 times for FY2021. The Net Cash Accruals to Total debt stood at same level of 0.26 times for FY2022 and FY2021. The Total outside liabilities to Tangible net worth has increased to 2.26 times for FY2022 as against 2.10 times for FY2021.

Acuité believes that the financial risk profile of GOL will remain healthy in near to medium term due to its improving operating performance, moderate debt levels vis-à-vis healthy tangible net worth and healthy debt protection metrics.

### **Improving operating performance**

GOL reported revenues of Rs.1134 Cr for FY2022 as against Rs.799 Cr in FY2021 which is a growth of ~42 percent and has achieved this mainly on account of increase in the export business under private label brands of its customers which are sold particularly to Middle East & North Africa (MENA) region. Exports have significantly increased from Rs.893 Cr in FY2022 as against Rs.675 Cr in FY2021. In addition to this, the company has also set up a 92.76 percent subsidiary named "GRM Foodkraft Private Limited" (GFPL) in the month of July 2020 to specifically focus on the domestic market through its own "10X" brand of consumer staples. GFPL has tied up with 125 distributors and has over 1,03,545 touch points (Kirana stores) in the major states. It has also signed agreements with major players like Jio Mart, Udaan, Walmart India and ElasticRun to sell its products. GFPL contributed revenue of Rs.189 Cr in FY2022 as against Rs.58 Cr in FY2021.

The operating margin of the company has increased to 10.25 percent in FY2022 as against 9.10 percent in FY2021 as well as the net profit margin of the company has increased to 7.45 percent in FY2022 as against 5.68 percent in FY2021 on account of overall increase in the

operating performance of the company.

Acuité believes that the ability of GOL to maintain its scale of operations while maintaining its profitability in near to medium term will remain a key rating sensitivity factor.

## **Weaknesses**

### **Working capital intensive operations**

The operations of GOL are highly working capital intensive marked by its increase in Gross Current Assets (GCA) of 202 for FY2022 as against 171 days for FY2021. This is primarily on account of high inventory and debtors days which stood at 70 days and 130 days in FY2022 as against 55 days and 117 days in FY2021. Inventory cycle of the company has increased due to an increase in the purchase of required raw materials and other components as well as increase in the level of finished goods. Since the production of rice is strongly dependant on weather conditions, rainfall and other climatic conditions, the company therefore maintains the high inventory by storing adequate amount of its different categories of rice in order to readily meet the demand of its customers. On the other hand, debtors cycle of the company has increased on account of increase in the overall sales and the company provides an average credit period of more than 90 days to its customers. Creditors cycle stood at 32 days in FY2022 as against 28 days in FY2021.

Acuité believes that ability of GOL to improve its working capital cycle in near to medium term will remain a key rating sensitivity factor.

### **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 80 percent of the procurement in forward contracts but it still represents a significant risk.

## **Rating Sensitivities**

- Ability to maintain scale of operations and profitability
- Ability to improve working capital cycle

## **Material covenants**

None

## **Liquidity position - Strong**

GOL has strong liquidity position marked by healthy net cash accruals (NCA) to its maturing debt obligations. The company generated cash accruals in the range of Rs.35 Cr to Rs.88 Cr during FY2020 to FY2022 against its repayment obligation in the range of Rs.0.35 Cr to Rs.0.31 Cr during the same period. Going forward the NCA are expected in the range of Rs.105 Cr – Rs.124 Cr for period FY2023-FY2024 against repayment obligation of Rs.0.13 Cr in FY2023 and further no repayment obligation in FY2024. The working capital operations of the company are however highly intensive marked by its increase in gross current asset (GCA) days of 202 days for FY2022 as against 171 days for FY2021 on account of significant increase in inventory and debtors cycle during the same period. The average bank limit utilization for 6 months' period ended March 2022 stood at ~76 percent. Current ratio stands at 1.68 times as on 31 March 2022. The company has maintained cash & bank balance of Rs.8 Cr in FY2022.

Acuité believes that the liquidity of GOL is likely to remain strong over the medium term on account of healthy cash accruals against its maturing debt obligations.

### Outlook: Stable

Acuité believes that GOL will maintain 'Stable' outlook over the medium term on account of its experienced management, healthy financial risk profile and increase in scale of operations. The outlook may be revised to 'Positive' in case of significant and sustained growth in revenue and profitability while effectively managing its working capital cycle and keeping the debt levels moderate. Conversely, the outlook may be revised to 'Negative' in case of lower than expected growth in revenue or deterioration in the financial and liquidity profile most likely as a result of higher than envisaged working capital requirements.

### Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	1134.27	799.37
PAT	Rs. Cr.	84.53	45.42
PAT Margin	(%)	7.45	5.68
Total Debt/Tangible Net Worth	Times	1.66	1.41
PBDIT/Interest	Times	9.99	6.27

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

CRISIL vide its press release dated 13 May 2022, has mentioned the rating of GOL to 'CRISIL BB+/Stable/A4+' (Downgraded & Issuer Not Cooperating) as on 13 May 2022.

### Any other information

None

### Applicable Criteria

- Manufacturing Entities: <https://www.acuite.in/view-rating-criteria-59.htm>
- 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>
- Consolidation Of Companies: <https://www.acuite.in/view-rating-criteria-60.htm>

### Note on complexity levels of the rated instrument

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

### Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
24 Jun 2021	Standby Line of Credit	Long Term	15.00	ACUITE BB (Downgraded and Issuer not co-operating*)
	Packing Credit	Short Term	24.00	ACUITE A4+ (Issuer not co-operating*)
	Standby Line of Credit	Long Term	4.00	ACUITE BB (Downgraded and Issuer not co-operating*)
	Proposed Bank Facility	Short Term	95.00	ACUITE A4+ (Issuer not co-operating*)
	Packing Credit	Short Term	82.00	ACUITE A4+ (Issuer not co-operating*)
30 Mar 2020	Packing Credit	Short Term	82.00	ACUITE A4+ (Downgraded and Issuer not co-operating*)
	Packing Credit	Short Term	24.00	ACUITE A4+ (Downgraded and Issuer not co-operating*)
	Proposed Bank Facility	Short Term	95.00	ACUITE A4+ (Downgraded and Issuer not co-operating*)

	Standby Line of Credit	Long Term	4.00	ACUITE BB+ (Downgraded and Issuer not co-operating*)
	Standby Line of Credit	Long Term	15.00	ACUITE BB+ (Downgraded and Issuer not co-operating*)
16 Jan 2019	Term Loan	Long Term	1.50	ACUITE BBB   Stable (Withdrawn)
	Standby Line of Credit	Long Term	4.00	ACUITE BBB   Stable (Upgraded from ACUITE BBB-   Stable)
	Standby Line of Credit	Long Term	15.00	ACUITE BBB   Stable (Upgraded from ACUITE BBB-   Stable)
	Proposed Bank Facility	Short Term	95.00	ACUITE A3+ (Upgraded from ACUITE A3)
	Packing Credit	Short Term	24.00	ACUITE A3+ (Upgraded from ACUITE A3)
	Packing Credit	Short Term	82.00	ACUITE A3+ (Upgraded from ACUITE A3)
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

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Union Bank of India	Not Applicable	Packing Credit	Not Applicable	Not Applicable	Not Applicable	24.00	ACUITE A2   Upgraded ( from ACUITE A4+ )
State Bank of India	Not Applicable	Packing Credit	Not Applicable	Not Applicable	Not Applicable	132.00	ACUITE A2   Upgraded ( from ACUITE A4+ )
State Bank of India	Not Applicable	Packing Credit	Not Applicable	Not Applicable	Not Applicable	14.00	ACUITE A2   Assigned
Union Bank of India	Not Applicable	Packing Credit	Not Applicable	Not Applicable	Not Applicable	4.00	ACUITE A2   Assigned
Union Bank of India	Not Applicable	Stand By Line of Credit	Not Applicable	Not Applicable	Not Applicable	4.00	ACUITE BBB+   Stable   Upgraded ( from ACUITE BB )
State Bank of India	Not Applicable	Stand By Line of Credit	Not Applicable	Not Applicable	Not Applicable	15.00	ACUITE BBB+   Stable   Upgraded ( from ACUITE BB )
State Bank of India	Not Applicable	Warehouse Receipt Financing	Not Applicable	Not Applicable	Not Applicable	45.00	ACUITE A2   Upgraded ( from ACUITE A4+ )



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### About Acuité Ratings & Research

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