



Press Release
G R M O V E R S E A S L I M I T E D
January 05, 2024
Rating Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	19.00	ACUITE A- Stable Reaffirmed	-
Bank Loan Ratings	219.00	-	ACUITE A2+ Reaffirmed
Total Outstanding Quantum (Rs. Cr)	238.00	-	-

Rating Rationale

Acuite has reaffirmed its long-term rating of '**Acuite A-**' (read as **Acuite A minus**) and short-term rating of '**Acuite A2+**' (read as **Acuite A two plus**) for Rs. 238.00 crore bank facilities of GRM Overseas Limited (GOL). The outlook is '**Stable**'.

Rationale for rating reaffirmation

The rating reaffirmation considers improvement recorded in the financial risk profile, marked by strong net-worth, gearing levels and healthy debt protection metrics. The adjusted net-worth (adjusted with classification of unsecured loans by promoters subordinated to bank borrowings as quasi equity) stood at Rs.372.04 Cr in FY2023 and Rs.288.83 Cr in the previous fiscal. The liquidity continues to remain strong with healthy cash accruals generation against nominal repayment obligation and moderate reliance on working capital limits. The rating further factors in the diversified geographical presence and its wide distribution network. The operating income grew to Rs.1379.46 Cr in FY2023 from Rs.1134.27 Cr in FY2022, led by increase in sale volumes and price realisations. The exports segment recorded a growth of ~16% and domestic segment ~49%. The revenues and profitability however, recorded moderation in H1FY2024 as compared to H1FY2023 levels. The moderation is on account of Government of India imposed restrictions on exports of Basmati Rice below USD 1200 per MT on 25th August 2023 which impacted the shipments in Q2FY2024 (average export price of Basmati rice exports over past 5 years from India was USD 975 per MT). Subsequently these restrictions were lifted on 25th October 2023, which is expected to favourably support the group in the coming months.

The rating is however constrained by the group's working capital intensive operations, foreign exchange fluctuation risk and moderation in the profit margin. The operating margins moderated to 7.98% in FY2023 against 10.25% in the previous fiscal due to inflated raw material prices (paddy). In H1FY2024, the operating margins further declined to ~5.98% in H1FY2024 against ~8.95% in H1FY2023.

Going ahead, the group's ability to avoid any significant moderation in scale of operations while improving its profitability will remain a key rating sensitivity factor.

About Company

The group established as a Partnership Firm in 1974 as "Garg Rice & General Mills". In 1995, the company incorporated to public company with the name of GRM Overseas Limited. In 1996, the company get listed on Bombay Stock Exchange (BSE). 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. In the year 2022, the company has also been listed on National Stock Exchange of India Limited (NSE).

GRM Group comprises of GRM Overseas Limited and its three subsidiaries namely GRM International Holding Ltd. (GIHL, UK), GRM Fine Foods Inc. (GFFI, USA) & GRM Foodkraft Pvt. Ltd. (GFPL, India). The group is engaged in milling, processing and distribution of basmati rice in domestic and overseas market. It exports to more than 42 countries across majorly in Middle East and Europe. The domestic business is conducted through GRM Foodkraft Pvt Ltd under their flagship brand-name 10X offering essential consumer goods and kitchen necessities, encompassing rice, spices, atta (flour), and Ready-to-Eat products. The international operations are run through GRM International Holding Ltd. (GIHL, UK), GRM Fine Foods Inc. (GFFI, USA).

Unsupported Rating

Not Applicable

Analytical Approach

Extent of Consolidation

- Full Consolidation

Rationale for Consolidation or Parent / Group / Govt. Support

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. Together these entities are being referred to as GRM Group (GG).

Key Rating Drivers

Strengths

Experienced management and established brand presence in the agri-food industry

The group established as a Partnership Firm in 1974 as "Garg Rice & General Mills". In 1995, the company incorporated to public company with the name of GRM Overseas Limited. It has established itself as a quality Basmati rice producer and supplier in more than 42 countries through a wide network of sales and distribution offices in the UK, USA & Middle East. The company has tied up with 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 the group will continue to benefit from its experienced management, established brand presence and long-standing relationship with its customers and suppliers.

Improved operating revenue in FY2023; albeit moderation in H1FY2024

The group recorded revenue of Rs.1379.46 Cr for FY2023 as against Rs.1134.27 Cr in FY2022 marking a growth of ~21.62 percent. The revenue growth is supported by both increase in volumes and prices realisations. The sale volumes recorded a 10.91 % increase vis-a-vis last year, while the price realisation was higher by 3.78 percent in FY2023 compared to FY22. The revenue is derived from export of basmati rice coupled with sale of basmati rice and other staples in the domestic market. Exports revenue contribution stood at 76% in FY2023 (80% in FY2022). The revenue from domestic sales witnessed growth of 48.51% in FY2023 against 44.17% in the previous year. Healthy growth traction is expected to continue in the domestic sales over the medium term.

In H1FY2024, the revenue moderated and stood at Rs.536.27 Cr against Rs.588.98 Cr in H1FY2023 along with decline in operating margins.

The operating margin moderated to 7.98% in FY2023 against 10.25% in FY2022 primarily due to increase in material and freight costs. However, the adjusted PBT stood steady at Rs.75.80 Cr in FY2023, Rs.77.02 Cr in FY2022 and Rs.52.97 Cr in FY2021. The PAT margins declined due to high finance cost and stood at 4.56% in FY2023 against 7.45% in the previous fiscal.

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

Healthy financial risk profile

The group's financial risk profile is healthy marked by strong net worth, healthy gearing, and debt protection metrics. The net worth improved to Rs.372.04 Cr as on 31 March 2023 as against Rs.288.83 Cr as on 31 March 2022 on account of healthy accretion to reserves. The net worth has been adjusted with unsecured loans which have been subordinated to bank borrowings, considered as quasi equity. The gearing (debt-equity) improved to 0.84 times as on 31 March 2023 as against 0.88 times as on 31 March 2022. The gearing of the group is expected to improve further and remain low over the medium term on account of absence of any debt funded capex. The total debt of Rs.314.03 Cr as on 31 March 2023 consists of long-term bank borrowings of Rs.0.77 Cr, and short-term working capital limit of Rs.313.26 Cr. The decline in profitability in FY2023 led to moderation in debt protection metrics. The ICR and DSCR moderated in FY2023 due to high interest cost coupled with moderated operating profit. The interest coverage ratio stood at 5.60 times in FY2023 from 9.99 times in FY2022. The DSCR stood at 4.29 times in FY2023 as compared to 7.66 times in FY2022. The Net Cash Accruals to Total debt stood at 0.21 times for FY2023 and 0.35 times for FY2022. The Total outside liabilities to Tangible net worth stood at 1.10 times for FY2023 as against 1.30 times for FY2022. The group will be availing enhancement in working capital limits in near term.

Acuite believes that the financial risk profile will continue to remain healthy on account of no major debt-funded capex.

Weaknesses

Working capital intensive operations

The group's operations are working capital intensive marked by Gross Current Assets (GCA) of 194 days for FY2023 as against 202 days for FY2022. This is primarily on account of high inventory and debtor days which stood at 90 days and 107 days in FY2023 as against 70 days and 130 days in FY2022. Inventory cycle of the company has increased due to an increase in the purchase of primarily the basmati rice, for domestic market as Indian market prefers aged basmati over regular basmati and commands premium. Also, 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 group is marked with an average credit period of up to 120 days to its customers. Creditors cycle stood at 24 days in FY2023 as against 32 days in FY2022. The reliance on working capital limits stood moderate at 75% for last 6 months ending September 2023.

Going ahead, working capital operations are expected to remain intensive over the medium term.

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 price risk.

Risk related to economic conditions of the export countries, foreign exchange and government regulations

The Group is engaged in the milling and processing of rice and is exporting the same to Middle Eastern countries. 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 Group. The profitability margins remain susceptible to fluctuations in foreign exchange rates. The foreign exchange fluctuation risk is however mitigation to an extent as the Group hedges ~70% of its payments.

Rating Sensitivities

Improvement in scale of operations and profitability margins while maintaining its capital structure.

Improvement in working capital cycle while maintaining strong liquidity position.

Liquidity Position

Strong

The Group has strong liquidity position marked by healthy net cash accruals (NCA) to its maturing debt obligations. It generated cash accruals in the range of Rs.66.65 Cr in FY2023 against its repayment obligation of Rs.0.31 Cr. Going ahead, the NCA are expected in the range of Rs.71.29 Cr – Rs.80.32 Cr for FY2024 and FY2025 against repayment obligation of Rs.0.44 Cr and Rs.0.24 Cr respectively. The working capital operations of the Group are intensive marked by high gross current asset (GCA) days of 194 days in FY2023 as against 202 days in the previous fiscal. The average bank limit utilization for 6 months period ended September 2023 stood at ~75 percent. Current ratio stands at 1.80 times as on 31 March 2023. The company has maintained cash & bank balance of Rs.3.14 Cr in FY2023.

Acuité believes that the Group's liquidity is likely to remain strong over the medium term on account of healthy cash accruals against its nominal maturing debt obligations and moderate reliance on working capital limits.

Outlook: Stable

Acuité believes that the Group will maintain 'Stable' outlook over the medium term on account of its experienced management, strong liquidity and healthy financial risk profile. 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 and improvement in profitability or deterioration in the financial and liquidity profile most likely as a result of higher than envisaged working capital requirements.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 23 (Actual)	FY 22 (Actual)
Operating Income	Rs. Cr.	1379.46	1134.27
PAT	Rs. Cr.	62.86	84.53
PAT Margin	(%)	4.56	7.45
Total Debt/Tangible Net Worth	Times	0.84	0.88
PBDIT/Interest	Times	5.60	9.99

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

Not Applicable

Any Other Information

None

Applicable Criteria

- 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>
- Default Recognition: <https://www.acuite.in/view-rating-criteria-52.htm>
- Manufacturing Entities: <https://www.acuite.in/view-rating-criteria-59.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
06 Nov 2023	Packing Credit	Short Term	146.00	ACUITE A2+ (Upgraded from ACUITE A2)
	Packing Credit	Short Term	28.00	ACUITE A2+ (Upgraded from ACUITE A2)
	Standby Line of Credit	Short Term	4.00	ACUITE A- (Upgraded from ACUITE A2)
	Warehouse Receipt Financing	Short Term	45.00	ACUITE A2+ (Upgraded from ACUITE A2)
	Standby Line of Credit	Long Term	15.00	ACUITE A- Stable (Upgraded from ACUITE BBB+ Stable)
17 Aug 2022	Standby Line of Credit	Long Term	15.00	ACUITE BBB+ Stable (Upgraded from ACUITE BB)
	Packing Credit	Short Term	4.00	ACUITE A2 (Assigned)
	Packing Credit	Short Term	132.00	ACUITE A2 (Upgraded from ACUITE A4+)
	Packing Credit	Short Term	14.00	ACUITE A2 (Assigned)
	Packing Credit	Short Term	24.00	ACUITE A2 (Upgraded from ACUITE A4+)
	Warehouse Receipt Financing	Short Term	45.00	ACUITE A2 (Upgraded from ACUITE A4+)
	Standby Line of Credit	Long Term	4.00	ACUITE BBB+ Stable (Upgraded from ACUITE BB)
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*)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
State Bank of India	Not Applicable	Packing Credit	Not Applicable	Not Applicable	Not Applicable	Simple	146.00	ACUITE A2+ Reaffirmed
Union Bank of India	Not Applicable	Packing Credit	Not Applicable	Not Applicable	Not Applicable	Simple	28.00	ACUITE A2+ Reaffirmed
State Bank of India	Not Applicable	Stand By Line of Credit	Not Applicable	Not Applicable	Not Applicable	Simple	15.00	ACUITE A- Stable Reaffirmed
Union Bank of India	Not Applicable	Stand By Line of Credit	Not Applicable	Not Applicable	Not Applicable	Simple	4.00	ACUITE A- Stable Reaffirmed
State Bank of India	Not Applicable	Warehouse Receipt Financing	Not Applicable	Not Applicable	Not Applicable	Simple	45.00	ACUITE A2+ Reaffirmed

Contacts

Analytical	Rating Desk
Mohit Jain Senior Vice President-Rating Operations Tel: 022-49294017 mohit.jain@acuite.in	Varsha Bist Senior Manager-Rating Operations Tel: 022-49294011 rating.desk@acuite.in
Pradeep Singh Senior Analyst-Rating Operations Tel: 022-49294065 pradeep.singh@acuite.in	

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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