

RATING RATIONALE

17Aug2021

**GRM Overseas Ltd**

Brickwork Ratings assigns the long term ratings and upgrades the short term ratings for the Bank Loan Facilities of Rs. 170.00 Crs. of GRM Overseas Ltd

Particulars

Facilities**	Amount (Rs.Crs.)		Tenure	Rating#	
	Previous	Present		Previous (02 Feb 2021)	Present
Fund Based	0.00	168.00	Long Term	-	BWR BBB + /Stable Assignment
	168.00	0.00	Short Term	BWR A4+ ISSUER NOT COOPERATING Downgraded	BWR A2 Upgrade
Non Fund Based	2.00	2.00	Short Term	BWR A4+ ISSUER NOT COOPERATING Downgraded	BWR A2 Upgrade
Grand Total	170.00	170.00	(Rupees One Hundred Seventy Crores Only)		

#Please refer to BWR website www.brickworkratings.com (<https://www.brickworkratings.com>) for definition of the ratings

**Details of Bank Loan facilities,consolidation or instruments are provided in Annexure

RATING ACTION / OUTLOOK

BWR has assigned the long term rating and upgraded the short term rating to BWR BBB+/Stable and BWR A2 respectively for the bank loan facilities of GRM Overseas Limited owing to the sustained improvement in the company's scale of operations, profitability over the years and improvement in the credit profile over the years, along with BWR's expectations that the same will be sustained in the near term due to the essential nature of industry.

The ratings continue to take into account the steady growth in profitability margins over the years. The rating continues to benefit on account of its established operational track record and long experience of the promoters in the basmati rice industry; wide distribution network and its established relationships with domestic and export clients. However, the ratings remain constrained by the competitive and fragmented nature of the industry which limits the pricing flexibility of the industry participants, agro climatic risks, changes in government regulations and trade policies, both in the domestic as well as importing countries, and customer concentration risk.

The rating outlook continues to be Stable on account of estimated revenues of Rs. 250 Cr till July 2021 and sufficient order book for the coming months which shows revenue visibility in near term in spite of slowdown in global economy due to Covid-19 pandemic industry. The rating outlook is also Stable on account of a sound demand outlook for the rice industry for both the short and medium term due to its essential nature and is hence, not impacted much by the Covid-19 pandemic.

KEY RATING DRIVERS

Credit Strengths:

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

Initially the entity was founded in 1974 and in 1995 it was converted into a public limited company. Management team at GRM is highly qualified and experienced. Promoters have more than two decades of experience in the same line of business and have gained through knowledge of the market.

- **Above average financial risk profile :**

GRM's capital structure has been above average on account of limited reliance on external funds yielding gearing of 1.46 times and total outside liabilities to adjusted networth of 1.68 times for the year ended March 31, 2021. Debt protection metrics were comfortable despite leverage because of moderately healthy profitability. Interest coverage and net cash accrual to total debt ratios stood at 5.00 times and 0.17 time, respectively, in fiscal 2021. The metrics are expected to remain stable over the medium term.

- **Stable demand for rice exports during FY21 :**

Demand for rice exports is expected to remain stable during FY22 on account of increased demand from major rice importing countries like UK and Middle East because of creation of buffer stock amid pandemic and going forward consumer's preference for the rice whose staple nature will help stabilize the overall demand. GRM recorded a estimated sales of Rs. 250 Cr as revenue for 4 months ended July 2021.

- **Good growth in profitability margins over the years :**

The company has reported the operating profit margin and net profit margin at 7.48% and 4.71% respectively in FY 21 as compared to 6.79% and 4.72% in FY 20. The increase in profitability margins as compared to the FY 2019 is on account of shift in focus to quality of customers.

Credit Risks:

- **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 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.

- **High competition and fragmentation: :**

Due to lower entry barriers by limited capital and technological requirements, small gestation period and easy availability of RM, industry is characterised by presence of large numbers of small and medium players reducing bargaining power with buyers and creating high fragmentation and competition in pricing of finished goods.

- **Customer, geographic concentration risk and forex risk :**

GRM is exposed to customers and geographic concentration risk. The company derives around 50% of total export revenue from Iraq/Iran however, repeat orders and customer profiles, coupled with ECGS cover and payments in INR /Euro mitigate the counterparty risk to some extent. Dependence on any specific geographies may expose the company to the possibilities of economic downturns or changes in government policies in regions may impact the flow of orders. Also, exposing the firm to volatility in foreign exchange (forex) rates, forex risk is mitigated by way of natural hedging as the firm has availed Packing Credit facility. The firm also avails forward contract limit for hedging forex risk.

ANALYTICAL APPROACH - Standalone

For arriving at its ratings, BWR has applied its rating methodology as detailed in the Rating Criteria detailed below (hyperlinks provided at the end of this rationale).

RATING SENSITIVITIES

Upgrade: BWR may revise the ratings upgrade if there is a sustained improvement in company's credit profile, with the ability to achieve optimal capacity utilization and margins over the medium term.

Downgrade: BWR may revise the ratings downwards if there is a sustained deterioration in the company's EBITDA and debt protection metrics and/or a stretch in its working capital/liquidity.

LIQUIDITY INDICATORS - Adequate

The company's liquidity is supported by adequate cash accruals vis-à-vis debt repayments. The company has cash accruals of Rs. 34.66 Cr as per FY 21 against the fixed term obligations of Rs. 0.35 Cr as per FY 20 as against the cash accruals of Rs. 26.41 Cr as per FY 20 against the fixed term obligations of Rs. 0.54 Cr as per FY 19. The company's average working capital utilization stood at 70% for the past 6 months. Liquidity is further supported by equity and unsecured loans from the promoters. Current ratio was moderate at 1.37 times as on March 31, 2021

ABOUT THE ENTITY

GRM Overseas limited (GRM) was founded in the year 1974 at Panipat, Haryana. Mr. H.C Garg is the founder chairman of the company. Later in the year 1995, it was converted to a limited company. The company is into processing, exporting and trading of premium quality Indian rice. The company has three processing centres with five fully automatic units in Panipat, Haryana, with a total capacity of 20 tonne per hour. It sells rice under its own brands as well as customers' brands under private label arrangements. GHIL and GFFI are wholly owned subsidiaries of GRM, having operations in the U.K. and U.S.A. Both the subsidiaries engaged in a similar line of business.

KEY FINANCIAL INDICATORS (Standalone)

Key Parameters	Units	FY 19-20 (Audited)	FY 18-19 (Audited)
Operating Revenue	Rs.Crs.	766.52	1070.63
EBITDA	Rs.Crs.	52.08	41.85
PAT	Rs.Crs.	36.16	16.25
Tangible Net Worth	Rs.Crs.	99.77	65.81
Total Debt/Tangible Net Worth	Times	2.11	5.30
Current Ratio	Times	1.24	1.08

KEY FINANCIAL INDICATORS (Consolidated)

Key Parameters	Units	FY 19-20 (Audited)	FY 18-19 (Audited)
Operating Revenue	Rs.Crs.	777.15	1109.05
EBITDA	Rs.Crs.	48.32	37.09
PAT	Rs.Crs.	31.70	9.07
Tangible Net Worth	Rs.Crs.	87.31	58.80
Total Debt/Tangible Net Worth	Times	2.41	5.93
Current Ratio	Times	1.20	1.06

RATING HISTORY FOR THE PREVIOUS THREE YEARS (including withdrawal and suspended)

Facilities	Current Rating (2021)			2021 (History)		2020		2019		2018	
	Type	Tenure	Amount (Rs.Crs.)	Rating	Date	Rating	Date	Rating	Date	Rating	Date
Fund Based	LT	168.00	BWR BBB+/Stable (Assignment)	02Feb2021	- ()	01Jun2020	- ()	27Dec2019	- ()	NA	NA
		NA	NA	NA	NA	NA	NA	08Apr2019	BWR BB+ (Stable) ISSUER NOT COOPER ATING (Reaffirmed)	NA	NA
Fund Based	ST	NA	NA	02Feb2021	BWR A4+ ISSUER NOT COOPER ATING (Downgraded)	NA	NA	NA	NA	NA	NA

Facilities	Current Rating (2021)			2021 (History)		2020		2019		2018	
	ST	2.00	BWR A2 (Upgrade)	02Feb2021	BWR A4+ ISSUER NOT COOPERATING (Downgraded)	01Jun2020	BWR A3+ (Reaffirmed)	27Dec2019	BWR A3+ (Upgrade)	NA	NA
		NA	NA	NA	NA	NA	NA	08Apr2019	BWR A4+ ISSUER NOT COOPERATING (Reaffirmed)	NA	NA
Grand Total		170.00	(Rupees One Hundred Seventy Crores Only)								

COMPLEXITY LEVELS OF THE INSTRUMENTS - Simple

BWR complexity levels are meant for educating investors. The BWR complexity levels are available at www.brickworkratings.com/download/ComplexityLevels.pdf (<https://www.brickworkratings.com/download/ComplexityLevels.pdf>). Investors queries can be sent to info@brickworkratings.com (<mailto:info@brickworkratings.com>).

Hyperlink/Reference to applicable Criteria

- [General Criteria \(https://www.brickworkratings.com/download/Criteria-GeneralCriteria.pdf\)](https://www.brickworkratings.com/download/Criteria-GeneralCriteria.pdf)
- [Approach to Financial Ratios \(https://www.brickworkratings.com/download/Criteria-FinancialRatios.pdf\)](https://www.brickworkratings.com/download/Criteria-FinancialRatios.pdf)
- [Manufacturing Companies \(https://www.brickworkratings.com/download/Criteria_ManufacturingCompanies.pdf\)](https://www.brickworkratings.com/download/Criteria_ManufacturingCompanies.pdf)
- [Short Term Debt \(https://www.brickworkratings.com/download/Criteria-ShortTermDebt.pdf\)](https://www.brickworkratings.com/download/Criteria-ShortTermDebt.pdf)

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GRM Overseas Ltd

ANNEXURE-I

Details of Bank Facilities rated by BWR

SL.No.	Name of the Bank/Lender	Type Of Facilities	Long Term(Rs.Crs.)	Short Term(Rs.Crs.)	Total(Rs.Crs.)
1	State Bank Of India (SBI)	Export Packing Credit (EPC)-Sanctioned	–	–	0.00
2	State Bank Of India (SBI)	Standby Line of Credit-Sanctioned	–	–	0.00

SL.No.	Name of the Bank/Lender	Type Of Facilities	Long Term(Rs.Crs.)	Short Term(Rs.Crs.)	Total(Rs.Crs.)
3	State Bank Of India (SBI)	Forward Contract-Sanctioned	-	-	0.00
4	State Bank Of India (SBI)	Export Packing Credit (EPC)-Sanctioned	125.00	-	125.00
5	State Bank Of India (SBI)	Stand by Line of Credit-Sanctioned	15.00	-	15.00
6	State Bank Of India (SBI)	Forward Contract-Sanctioned	-	2.00	2.00
7	Union Bank of India	Export Packing Credit (EPC)-Sanctioned	24.00	-	24.00
8	Union Bank of India	Stand by Line of Credit-Sanctioned	4.00	-	4.00
9	Union Bank of India	Export Packing Credit (EPC)-Sanctioned	-	-	0.00
10	Union Bank of India	Standby Line of Credit-Sanctioned	-	-	0.00
Total			168.00	2.00	170.00
TOTAL (Rupees One Hundred Seventy Crores Only)					

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