

Rating Advisory

April 29, 2022 | Mumbai

GRM Overseas Limited

Update as on April 29, 2022

This rating advisory is provided in relation to the rating of GRM Overseas Limited

The key rating sensitivity factors for the rating include:

Upward Factors

- Higher operating margins at above 12% on a sustainable basis
- Efficient working capital management with debt falling to below Rs.100 crores on a sustainable basis
- Reduction in geographical concentration in sales

Downward Factors

- Decline in operating profitability by over 200 basis points on a sustained basis and increase in geographical concentration
- Large, debt-funded capital expenditure weakening the capital structure
- Substantial increase in the working capital requirement weakening liquidity and the financial risk profile

CRISIL Ratings has a policy of keeping its accepted ratings under constant and ongoing monitoring and review. Accordingly, it seeks regular updates from companies on business and financial performance. CRISIL Ratings is yet to receive adequate information from GRM Overseas Limited (GRM) to enable it to undertake a rating review. CRISIL Ratings is taking all possible efforts to get the rated entity to cooperate with its rating process for enabling it to carry out the rating review.

CRISIL Ratings views information availability risk as a key factor in its assessment of credit risk. (Please refer to CRISIL Ratings' criteria available at the following link, https://www.crisil.com/content/dam/crisil/criteria_methodology/basics-of-ratings/assessing-information-adequacy-risk.pdf)

If GRM continues to delay the provisioning of information required by CRISIL Ratings to undertake a rating review then, in accordance with circulars SEBI/HO/MIRSD/MIRSD4/CIR/P/2016/119 dt Nov 1, 2016, SEBI/HO/MIRSD/ MIRSD4/ CIR/ P/ 2017/ 71 dt June 30, 2017 and **SEBI/HO/MIRSD/CRADT/CIR/P/2020/2 dt January 3, 2020** issued by Securities and Exchange Board of India, CRISIL Ratings will carry out the review based on best available information and issue a press release.

About the Company

GRM is a public limited company that processes and exports basmati rice (PUSA 1121 quality). The company has three processing centres with five fully automatic units in Panipat, Haryana, with total capacity of 20 tonne per hour. It sells rice under its own brands as well as customers' brands under private label arrangements. Mr HC Garg and Mr Atul Garg are the promoters of the company.

GHIL and GFFI are wholly owned subsidiary of GRM, having operations in U.K. and U.S.A. Both the subsidiary engaged in similar line of business.

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www.crisil.com/ratings/credit-rating-scale.html

Rating Rationale

February 22, 2021 | Mumbai

GRM Overseas Limited

'CRISIL BBB/Stable/CRISIL A3+' assigned to Bank Debt

Rating Action

Total Bank Loan Facilities Rated	Rs.170 Crore
Long Term Rating	CRISIL BBB/Stable (Assigned)
Short Term Rating	CRISIL A3+ (Assigned)

1 crore = 10 million

Refer to Annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL Ratings has assigned its 'CRISIL BBB/Stable/CRISIL A3+' ratings to the bank facilities of GRM Overseas Ltd (GRM).

The ratings reflect GRM's strong market position, prudent working capital management and comfortable financial risk profile. These strengths are partially offset by susceptibility to volatility in raw material prices and regulatory changes and significant concentration towards Iran.

Analytical Approach

To arrive at its rating, CRISIL Ratings has combined the business and financial risk profiles of GRM with its subsidiaries, GRM International Holdings Ltd. (GIHL) and GRM Fine Food Inc. (GFFI) both wholly owned subsidiaries. This is because all these entities, together referred to as the GRM group, are in the same business. Also, GRM holds significant control over other entities.

Please refer Annexure - List of entities consolidated, which captures the list of entities considered and their analytical treatment of consolidation.

Key Rating Drivers & Detailed Description

Strengths:

- **Strong market position:** The four-decade-long experience of the promoters has led to the company's strong market position across domestic and international markets and healthy relationships with global customers based on high quality standards. Exports to approximately 32 countries contributed to 89% of sales in fiscal 2020. The company primarily deals in basmati rice, which contributes to 90-95% of sales and majorly sells under private labels of customers across countries. It has established healthy relationships with a number of suppliers in Punjab and Haryana, enabling procurement of rice throughout the year at comfortable prices. Suppliers are not changed frequently in order to maintain quality standards.
- **Prudent working capital management:** Gross current assets were 150-172 days over the four fiscals ended March 31, 2020 and stood at 150 days as on March 31, 2020. The company is required to extend a long credit period, in line with the industry standards, as the customers are small- and medium-sized players who require credit. Furthermore, to meet the business requirement, it holds work-in-progress and finished goods inventory.
- **Above average financial risk profile:** GRM's capital structure has been above average on account of limited reliance on external funds yielding gearing of 1.45 times and total outside liabilities to adjusted networth of 2.12 times for the year ended March 31, 2020. Debt protection metrics were comfortable despite leverage because of moderately healthy profitability. Interest coverage and net cash accrual to total debt ratios stood at 4.2 times and 0.26 time, respectively, in fiscal 2020. The metrics are expected to remain stable over the medium term.

Weaknesses:

- **Susceptibility to volatility in raw material prices and regulatory changes:** Exposure of the raw material, paddy, to the vagaries of the monsoons can lead to fluctuations in the availability and prices of paddy and, thus, could impact the

business risk profile. Moreover, it will remain exposed to regulatory changes in terms of prices of agricultural commodities and export restrictions.

- **Significant concentration towards Iran and limited own brand sales:** GRM derived around 65 % of revenue from Iran for fiscal 2020. For 9 months ending December 2020 in fiscal 2021, company's exposure to Iran is about 46% of total sales. Going ahead, though this exposure is expected to decline by adding customers from other geographies, concentration towards Iran and Middle Eastern countries will remain a monitorable. Company sells about 75% of its products under private label brands of other customers and sales under its own Himalaya, Jaipur and 7 Express bands is low around 20-25 %. Thus, GRM has limited brand visibility and recall in domestic as well as export markets as compared to the more penetrated brands of other companies in the segment.

Liquidity: Adequate

Net cash accrual, expected at over Rs.30 crores annually for fiscal 2021 and 2022, should sufficiently cover annual debt obligations of less than Rs.0.5 crore each. Bank limit utilisation averaged 65% over the 12 months through October 2020. Liquidity is further supported by equity and unsecured loans from the promoters. Current ratio was moderate at 1.54 times as on March 31, 2020.

Outlook: Stable

CRISIL Ratings believes GRM will continue to benefit from the strong presence and healthy relationships with clients

Rating Sensitivity factors

Upward Factors

- Higher operating margins at above 12% on a sustainable basis
- Efficient working capital management with debt falling to below Rs.100 crores on a sustainable basis
- Reduction in geographical concentration in sales

Downward Factors

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Key Financial Indicators

Particulars	Unit	2020	2019
Revenue	Rs crore	777.86	1109.50
Profit After Tax (PAT)	Rs crore	31.7	9.07
PAT Margin	%	4.1	0.8
Adjusted debt/adjusted networth	Times	1.45	4.74
Interest coverage	Times	4.2	2.2

Status of non-cooperation with previous CRA:

The company has not cooperated with Acuite Ratings and Research Ltd, which has classified it as non-cooperative through a rationale dated March 30, 2020, on account of non-furnishing of information for the monitoring of ratings

The company has not cooperated with Brickwork Ratings India Private Limited, which has classified it as non-cooperative through a rationale dated February 02, 2021, on account of non-furnishing of information for the monitoring of ratings.

Any other information: Not applicable

Note on complexity levels of the rated instrument:

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Annexure - Details of Instrument(s)

ISIN	Name of instrument	Date of allotment	Coupon rate (%)	Maturity date	Issue size (Rs.Crore)	Complexity level	Rating assigned With outlook
NA	Export Packing Credit	NA	NA	NA	149.0	NA	CRISIL BBB/Stable
NA	Standby Line of Credit	NA	NA	NA	19.0	NA	CRISIL BBB/Stable
NA	Foreign Exchange Forward	NA	NA	NA	2.0	NA	CRISIL A3+

Annexure – List of entities consolidated

Names of Entities Consolidated	Extent of Consolidation	Rationale for Consolidation
GRM Overseas Limited	100% consolidation	GRM International Holdings Ltd. and GRM Fine Food Inc. are wholly owned subsidiary of GRM. The group referred to as the GRM group
GRM Fine Food Inc.	100% consolidation	GRM International Holdings Ltd. and GRM Fine Food Inc. are wholly owned subsidiary of GRM. The group referred to as the GRM group
GRM International Holdings Limited	100% consolidation	GRM International Holdings Ltd. and GRM Fine Food Inc. are wholly owned subsidiary of GRM. The group referred to as the GRM group

Annexure - Rating History for last 3 Years

Current				2021 (History)		2020		2019		2018		Start of 2018
Instrument	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund Based Facilities	ST/LT	170.0	CRISIL A3+ / CRISIL BBB/Stable		--		--		--	09-10-18	Withdrawn (Issuer Not Cooperating)*	CRISIL BB /Stable / CRISIL A4+ (Issuer Not Cooperating)*
			--		--		--		--	31-08-18	CRISIL BB /Stable / CRISIL A4+ (Issuer Not Cooperating)*	--

All amounts are in Rs.Cr.

* - Issuer did not cooperate; based on best-available information

Annexure - Details of various bank facilities

Current facilities	Previous facilities
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Facility	Amount (Rs.Crore)	Rating	Facility	Amount (Rs.Crore)	Rating
Foreign Exchange Forward	2	CRISIL A3+	Proposed Long Term Bank Loan Facility	44	Withdrawn (Issuer Not Cooperating)
Standby Line of Credit	19	CRISIL BBB/Stable	Standby Line of Credit	13	Withdrawn (Issuer Not Cooperating)
Export Packing Credit	149	CRISIL BBB/Stable	Export Packing Credit	93	Withdrawn (Issuer Not Cooperating)
Total	170	-	Total	150	-

Links to related criteria

[CRISILs Approach to Financial Ratios](#)

[Rating criteria for manufacturing and service sector companies](#)

[CRISILs Bank Loan Ratings - process, scale and default recognition](#)

[Assessing Information Adequacy Risk](#)

[CRISILs Criteria for rating short term debt](#)

[CRISILs Criteria for Consolidation](#)

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