

Chagi Agro Industries Private Limited

January 13, 2022

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating ¹	Rating Action
Long Term Bank Facilities	12.81 (Enhanced from 8.81)	CARE B+; Stable (Single B Plus; Outlook: Stable)	Reaffirmed
Long Term / Short Term Bank Facilities	6.19	CARE B+; Stable / CARE A4 (Single B Plus; Outlook: Stable/ A Four)	Reaffirmed
Total Bank Facilities	19.00 (Rs. Nineteen Crore Only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating assigned to the bank facilities of the Chagi Agro Industries Private Limited (CAIPL) factors in gradual ramp up in its operations but it continues to remain small in a highly fragmented and competitive industry. The rating is also constrained by leveraged capital Structure with CAIPL planning to avail additional debt, moderate debt coverage indicators and Working capital intensive nature of operations along with agro climatic risks. Seasonal nature of availability of paddy and margins susceptible to raw material price fluctuations and Regulations by Government also constrains the rating. These rating weaknesses are partially offset by the long track record of the promoters in the similar line of business, established association with suppliers and customers and stable outlook demand for rice

Rating Sensitivities

Positive Factors - Factors that could lead to positive rating action/upgrade:

- Ability to achieve the scale of operations of Rs. 55 crores.
- Ability to maintain the PBILDT margins > 10% and overall gearing below 2x on sustained basis

Negative Factors- Factors that could lead to negative rating action/downgrade:

- Overall gearing beyond 3.00x
- Decline in the PBILDT margin to less than 5%.

Detailed description of the key rating drivers

Key Rating Weaknesses

Small scale of operations and satisfactory profitability margins

CAIPL has achieved a total Operating income of Rs.20.22 Cr in FY21 being its first year of operations. In 9MFY22, the company has achieved a turnover of Rs.45.43 Cr. While PBILDT and PAT margins of the company were satisfactory at 11.89% and 5.77% in FY21, its ability to sustain the same over the period remains to be seen.

Leveraged capital Structure and moderate debt coverage indicators

Overall gearing of the company stood at 2.96x as on March 31,2021 on account of increase in the term loans, GECL loans used for the purpose of meeting operational liabilities and term loan for purchasing of solar panels. The networth of the company also stood low at Rs.2.40 Cr. Total debt to GCA of the company stood at 3.59x as on March 31,2021 and interest coverage ratio stood at 8.52x as on March 31,2021.

Working capital intensive nature of operations along with agro climatic risks

Paddy in India is harvested mainly at the end of two major agricultural seasons Kharif (June to September) and Rabi (November to April). The millers have to stock enough paddy by the end of each season as the price and quality of paddy is better during the harvesting season. During this time, the working capital requirements of the rice millers are generally on the higher side. Majority funds of the Company are blocked in inventory. The Company avails credit period of 60-90 days from its suppliers and extends credit up to 40 days to its customers. Company's average utilization of working capital stood at 90% during last 12 months ended December 31,2021

Seasonal nature of availability of paddy and margins susceptible to raw material price fluctuations and Regulations by Government

The major procurement of Paddy happens during the months of October to January and April to July. The firm's raw material being paddy, for proper harvest and availability of paddy, the weather conditions should be adequate. Adverse weather conditions directly affect the supply and availability of the paddy and raw material price fluctuations. The central Government of India (GOI), every year decides a minimum support price of paddy which limits the bargaining power of rice millers over the farmers. The sale of rice in the open market is also regulated by the government through levy quota and fixed prices. Due to

¹Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

the above said regulations along with the intense competition, the bargaining power of the rice millers against the suppliers of paddy and the customers is limited.

Highly fragmented and competitive business segment due to presence of numerous players

The Company is engaged into a fragmented business segment and competitive industry. The market consists of several small to medium-sized firms that compete with each other along with several large enterprises. There are several small sized firms in and around Siruguppa area which compete with CAIPL.

Key Rating Strengths

Long track record of the promoters

The promoters Mr. Chagi Vinay and Mr. Chagi Subbaiah Setty are in the business of rice milling for more than 2 decades through group Company Chagi Narasaiah Agro foods which had turnover of around Rs 42 Cr in FY21. The rich experience of the promoters will aid in improving the scale of operations of CAIPL.

Established association with suppliers and customers

The company has established relations with the customers in and around the state of Karnataka due to long track record of the promoters in the similar field of business which is evident from the TOI of Rs.20 Cr in its first year of operations by CAIPL.

Stable outlook demand for rice

Agriculture is the primary source of livelihood for about 58 per cent of India's population. The Indian food industry is poised for huge growth, increasing its contribution to world food trade every year due to its immense potential for value addition, particularly within the food processing industry. Rice is consumed in large quantity in India which provides favourable opportunity for the rice millers and thus the demand is expected to remain healthy over medium to long term. India is the second largest producer of rice in the world after China and the largest producer and exporter of basmati rice in the world. The rice industry in India is broadly divided into two segments – basmati (drier and long grained) and non-basmati (sticky and short grained). Demand of Indian basmati rice has traditionally been export oriented where the South India caters about one-fourth share of India's exports. However, with a growing consumer class and increasing disposable incomes, demand for premium rice products is on the rise in the domestic market. Demand for non-basmati segment is primarily domestic market driven in India. Initiatives taken by government to increase paddy acreage and better monsoon conditions will be the key factors which will boost the supply of rice to the rice processing units

Liquidity: Stretched

The liquidity profile of the company is marked by the high working capital utilization limit to the extent of 90% during last 12 months ending December 31, 2021 and modest cash and bank balance of Rs. 0.48 crore as on March 31,2021 (Prov.).

Analytical approach: Standalone

Applicable Criteria

[Policy on default recognition](#)

[Financial Ratios – Non financial Sector](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Credit Watch](#)

[Manufacturing Companies](#)

About the Company

Chagi Agro Industries private limited (CAIPL) is established in October 2019 and has started commercial operations from March 2020. The company is into rice milling and processing and the promoter has the business vintage of over two decades in the rice milling business through group Company Chagi Narasaiah Agro foods. It has production capacity of 6 M.T per hour.

Brief Financials (Rs. crore)	31-03-2020 (A)	31-03-2021 (Prov.)	31-12-2021(Prov.)
Total operating income	0.01	20.22	45.43
PBILDT	-0.03	2.41	NA
PAT	-0.16	1.17	NA
Overall gearing (times)	NM	2.96	NA
Interest coverage (times)	NM	8.52	NA

A: Audited; Prov.: Provisional; NM : not meaningful; NA : Not available

Status of non-cooperation with previous CRA: Nil

Any other information: Not applicable

Rating History for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure 4

Annexure-1: Details of Instruments / Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	-	March 2027	4.81	CARE B+; Stable
Fund-based - LT-Cash Credit	-	-	-	-	8.00	CARE B+; Stable
Fund-based/Non-fund-based-LT/ST	-	-	-	-	6.19	CARE B+; Stable / CARE A4

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Fund-based - LT-Term Loan	LT	4.81	CARE B+; Stable	-	1)CARE B+; Stable (30-Mar-21)	-	-
2	Fund-based - LT-Cash Credit	LT	8.00	CARE B+; Stable	-	1)CARE B+; Stable (30-Mar-21)	-	-
3	Fund-based/Non-fund-based-LT/ST	LT/ST*	6.19	CARE B+; Stable / CARE A4	-	1)CARE B+; Stable / CARE A4 (30-Mar-21)	-	-

* Long Term / Short Term

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities

Name of the Instrument	Detailed explanation
A. Financial covenants	Nil
B. Non-financial covenants	Nil

Annexure 4: Complexity level of various instruments rated for this company

Sr. No	Name of instrument	Complexity level
1	Fund-based - LT-Cash Credit	Simple
2	Fund-based - LT-Term Loan	Simple
3	Fund-based/Non-fund-based-LT/ST	Simple

Annexure 5: Bank Lender Details for this Company

To view the lender wise details of bank facilities please [click here](#)

Note on complexity levels of the rated instrument: CARE Ratings Ltd. has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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