

## Chagi Agro Industries Private Limited

January 23, 2025

Facilities/Instruments	Amount (₹ crore)	Rating <sup>1</sup>	Rating Action
(i) Long Term / Short Term Bank Facilities	-	-	Withdrawn
(ii) Long Term Bank Facilities	34.00 (Enhanced from 12.81)	CARE BB-; Stable	Rating removed from ISSUER NOT COOPERATING category and Upgraded from CARE B; Stable

Details of instruments/facilities in Annexure-1.

### Rationale and key rating drivers

Rating of Chagi Agro Industries Private Limited (CAIPL) was earlier placed under the 'Issuer not cooperating (INC)' category as the company had not provided information for carrying out the surveillance exercise. CAIPL has now shared the requisite information with CARE Ratings Limited (CARE Ratings), and accordingly, the rating has been removed from 'INC'.

Withdrawal of rating assigned to the bank facility (i) is on account of confirmation from client regarding non availing of term loan against the proposed rated facility and request for withdrawal.

Revision in rating assigned to bank facility (ii) factors in consistent improvement in scale of operation since its commencement of operation from March 2020 and stable PBILDT margins. The rating remain constrained by its modest scale of operations and modest net worth base. The company's operations are heavily dependent on monsoon conditions and are subject to stringent government regulations. Additionally, the ratings reflect a moderate capital structure and debt coverage indicators, which are expected to moderate due to ongoing debt-funded capital expenditure aimed at expanding capacity from 5 TPH to 15 TPH.

However, the ratings derive strength from the promoter's two decades of experience in the industry and moderate profitability owing to its operation in to premium quality segment and good brand recall in the area where it operates.

### Rating sensitivities: Factors likely to lead to rating actions

#### Positive factors

- Significant improvement in TOI over Rs. 90 Cr led by increase in volume with sustenance of PBILDT margin at current levels.
- Improvement in gearing below 1x

#### Negative factors

- Any Significant decline in TOI below Rs. 60 Cr as result of decrease in volume and PBILDT margin below 5%.
- Deterioration in capital structure as a result of any cost and time overrun on its ongoing Capex

### Analytical approach: Standalone

#### Outlook: Stable

Stable outlook reflects CARE Ratings' expectation that CAIPL would continue to witness growth in scale on the back of ongoing capacity expansion which is expected to commercialise by April 2025. CAIPL is expected to continue to benefit from promoter's experience in the industry and good brand recall in the area where it operates resulting in sustenance of its PBILDT margins.

### Detailed description of key rating drivers:

#### Key weaknesses

##### Modest scale of operations with moderate net worth base:

CAIPL has commenced operations from March 2020, Total Operating Income (TOI) grew at a compounded annual growth rate (CAGR) of 815.1% in last 5 years ended FY24, primarily lead by improvement in sales realisation and stable volume. The TOI grew by 12% to Rs.77 crore in FY24 on a YoY basis mainly on account of improvement in realisation of rice and broken rice which

<sup>1</sup>Complete definition of ratings assigned are available at [www.careedge.in](http://www.careedge.in) and other CARE Ratings Limited's publications.

grew by 14% and 27% respectively. However, volume of rice sold have shown a decline of 5% in FY24. Despite consistent growth, the scale remain modest.

Although, the company has been able to improve its networth base to Rs.12.41 crore as at March 31, 2024, in a limited span with commencement of its operation from March 2020, however, the networth base remain modest thus limiting the financial flexibility. Further, competition in the industry will continue to restrict future growth prospects. The company presently has an installed capacity of 5 Tonnes Per Hour (TPH) and is in process of increasing its capacity to 15 TPH, which is expected to result in improvement in scale going forward.

**Project risk owing to its ongoing capacity expansion:**

CAIPL is presently enhancing its installed capacity from 5 TPH to 15 TPH, total cost of project is Rs. 20 Cr out of which company has been sanctioned a term loan of Rs. 9 Cr and balance amount will be done through internal accruals. Till now company has incurred Rs. 6 Cr for advance for purchase of machinery through internal accruals. Company is expecting that plant will be operational from April 2025. Given Large Capex with project size of 150% of its FY24 Net worth, the timely implementation of the project without time and cost overrun and stabilization of operations remains critical from credit perspective and a key monitorable.

**Monsoon-dependent operations and high level of government regulation:**

CAIPL's operations are dependent on agro-climatic conditions and may be adversely impacted in case of weak monsoons or poor crop quality. The rice industry is highly regulated by the government as it is seen as an important sector that could affect the food security of the country. The sale of rice in the open market is also regulated by the government through levy quotas and fixed prices. Hence, the firm is exposed to the risk associated with fluctuation in the price of rice. Due to recently experienced uncertainty on the timing and number of rainfalls, floods which necessitated the re-plantation of saplings may affect the production of rice for the current season.

**Moderate working capital intensity:**

CAIPL procures raw material i.e., Paddy directly from the farmers. The procurement is usually done in two phases as per the two crop seasons in India: Kharif and Rabi. Due to the high competition and fragmentation, the entity allows about 20 days of repayment period for the customers, thus resulting in moderate working capital intensity.

Company's operations are moderately working capital intensive as reflected by Gross Current Asset (GCA) days and working capital cycle of 108 days (PY: 52 days) and 81 days respectively during FY24 (PY: 63 days). Working capital cycle has increased on account of increase in inventory holding period. Inventory holding period was moderately high at 63 days in FY24 (PY: 43 days). Raw material and finished goods inventory constituted 97% and 3% respectively of total inventory. Receivable period was low at 19 days (PY: 22 days) during FY24. Debtors exceeding six months were Nil as on March 31, 2024. Credit period availed was low at 1 days (PY: 3 days).

**Moderate capital Structure and debt coverage indicators; albeit expected to moderate on the back of ongoing debt funded capex:**

CAIPL's capital structure stood moderate, as marked by an overall gearing of 1.37x as on March 31, 2024 (0.92x as on March 31, 2023). Its debt profile largely comprises working capital debt and term loans. The total outside liabilities to net worth stood moderate at 1.38x as on March, 31, 2024 (improved from 0.97x as on March, 31, 2023). The moderation in capital structure was on account of increase in working capital borrowings. The higher working capital borrowing as at the end of balance sheet was Rs. 12.18 Cr Going forward, the capital structure is expected to moderate on account of planned debt funded capex and increase in working capital borrowings with enhancement in installed capacity.

**Key strengths**

**Experience of promoters in the industry:**

CAIPL is promoted by Chagi Vinay Bhaskar, Director, who has over 20 years of industry experience and looks after overall business operations. The company enjoys strong brand recognition in its operating region. By selling 100% of its produce under its own brand, the company achieves higher profitability margins.

**Moderate profitability:**

CAIPL's operating profitability exhibited a stable trend with a profit before interest, lease rentals, depreciation, and taxation (PBILDT) margin within the range of 9-10% in the past three years ended FY24. It stood moderate at 8.59% during FY24, largely in line with previous year on account of stable input costs. As a result of its existence its promoter in to the business since long time the company commands a good brand recall in the region where it operates. The company sells 100% of its produce through its own brand, thus commanding a better profitability margins. Return on capital employed (ROCE) stood healthy at 24.08% during FY24 (PY: 26.16%) with a fixed asset turnover of 7.15x during FY24 (PY: 6.37x). Going forward, profitability is expected to improve owing to expected improvement in demand and better realisations with stable input cost.

**Liquidity: Stretched**

Liquidity is stretched, marked by tightly matched cash accruals against its schedule debt repayment and internal accruals committed for ongoing capex resulting in thin DSCR. Also the company reported negative cashflow from operations of Rs. 8.55 Cr in FY24 as against positive cash flow from operations of Rs. 9.30 Cr in FY23. Company's operations are moderately working capital intensive as reflected by Gross Current Asset (GCA) days and working capital cycle of 108 days (PY: 52 days) and 81 days respectively during FY24 (PY: 63 days). Working capital cycle has increased on account of increase in inventory holding period resulting in high utilisation of limits. The bank utilisation was at Rs.12.18 crore as against a limit of Rs.14 crore indicating a high utilisation of 87%.

### Applicable criteria

[Definition of Default](#)

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

[Rating Outlook and Rating Watch](#)

[Manufacturing Companies](#)

[Financial Ratios – Non financial Sector](#)

[Withdrawal Policy](#)

### About the company and industry

#### Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Fast Moving Consumer Goods	Fast Moving Consumer Goods	Agricultural Food & other Products	Other Agricultural Products

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 5 Tonne per hour. The promoter's family is into the business since 1929, the promoter of CAIPL is a third generation entrepreneur.

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)	September 30, 2024(UA)
Total operating income	68.99	77.23	33.08
PBILDT	6.58	6.63	2.53
PAT	3.53	3.58	NA
Overall gearing (times)	0.92	1.37	NA
Interest coverage (times)	7.14	5.24	NA

A: Audited UA: Unaudited NA: Not Available; Note: these are latest available financial results

**Status of non-cooperation with previous CRA:** Not Applicable

**Any other information:** Not Applicable

**Rating history for last three years:** Annexure-2

**Detailed explanation of covenants of rated instrument / facility:** Annexure-3

**Complexity level of instruments rated:** Annexure-4

**Lender details:** Annexure-5

**Annexure-1: Details of instruments/facilities**

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned and Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	25.00	CARE BB-; Stable
Fund-based - LT-Term Loan		-	-	31-03-2027	9.00	CARE BB-; Stable
Fund-based/Non-fund-based-LT/ST		-	-	-	0.00	Withdrawn

**Annexure-2: Rating history for last three years**

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2024-2025	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022
1	Fund-based - LT-Term Loan	LT	9.00	CARE BB-; Stable	1)CARE B; Stable; ISSUER NOT COOPERATING* (09-May-24)	-	1)CARE B; Stable; ISSUER NOT COOPERATING* (28-Feb-23)	1)CARE B+; Stable (13-Jan-22)
2	Fund-based - LT-Cash Credit	LT	25.00	CARE BB-; Stable	1)CARE B; Stable; ISSUER NOT COOPERATING* (09-May-24)	-	1)CARE B; Stable; ISSUER NOT COOPERATING* (28-Feb-23)	1)CARE B+; Stable (13-Jan-22)
3	Fund-based/Non-fund-based-LT/ST	LT/ST	-	-	1)CARE B; Stable / CARE A4; ISSUER NOT COOPERATING* (09-May-24)	-	1)CARE B; Stable / CARE A4; ISSUER NOT COOPERATING* (28-Feb-23)	1)CARE B+; Stable / CARE A4 (13-Jan-22)

\*Issuer did not cooperate; based on best available information.

LT: Long term; LT/ST: Long term/Short term

**Annexure-3: Detailed explanation of covenants of rated instruments/facilities:** Not Applicable

**Annexure-4: Complexity level of instruments rated**

Sr. No.	Name of the 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: Lender details**

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

**Note on complexity levels of rated instruments:** CARE Ratings has classified instruments rated by it based on complexity. Investors/market intermediaries/regulators or others are welcome to write to [care@careedge.in](mailto:care@careedge.in) for clarifications.

## Contact us

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