

Hindustan Agro Products Limited

March 04, 2025

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long-term bank facilities	41.70	CARE BB; Stable	Assigned
Short-term bank facilities	8.15	CARE A4	Assigned

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

Ratings assigned to bank facilities of Hindustan Agro Products Limited (HAPL) factor in moderate scale of operations and profitability, working capital intensive business, and intense competition and fragmented nature of the industry. Ratings also factor leveraged capital structure and debt coverage indicators, stretched liquidity, and profitability susceptible to vagaries of nature and shifts in government policies. However, ratings derive comfort from favourable location of operations, diversified customer and supplier base, and experienced and resourceful promoters.

Ratings also factor the company's financial performance in 9MFY25.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Improvement in profit before interest, lease rentals, depreciation, and taxation (PBILDT) margin to above 5%, while maintaining steady growth in revenue.
- Improvement in the working capital cycle to below 60 days.

Negative factors

- Decline in PBILDT margins to below 2.00% on a sustained basis.
- Deterioration in capital structure, represented by overall gearing ratio weakening to beyond 3x.

Analytical approach: Standalone

Outlook: Stable

CARE Ratings Limited (CARE Ratings) expects that the entity will benefit from its long-standing presence in the industry and established relationship with customers and suppliers.

Detailed description of key rating drivers:

Key weaknesses

Moderate scale of operations

Total operating income (TOI) grew at a compounded annual growth rate (CAGR) of 16.4% in the last four years ended FY24. TOI moderated by 11.39% to ₹148.33 crore in FY24 over FY23 on account of subdued demand from customers with competitive landscape. Major turnover is generated from idli ravva, wheat flour, and boiled rice. The company achieved a turnover of ₹130 crore for 9MFY25 and expect to close FY25 at ~₹185 crore. It has modest net worth base, which stood at ₹17.34 crore as on March 31, 2024. Going forward, scale of operations is expected to grow on account of expected improvement in demand.

Moderate profitability

The operating profitability exhibited a stable trend with a PBILDT margin within the range of 3-6% in the last three years ended FY24. It stood moderate at 5.85% in FY24 against 3.12% in FY23, with a y-o-y improvement of 273 bps on account of moderation in raw material prices though sales realisation remained muted owing to a competitive landscape. Profit after tax (PAT) margin stood at 2.21% in FY24 against 0.53% in FY23 on account of stable interest and depreciation costs. Return on capital employed (ROCE) stood comfortable at 15.55% in FY24 (PY: 9.33%) with a fixed asset turnover of 11.15x in FY24 (PY: 10.91x).

Working capital intensive nature of operations

The entity's operations are working capital-intensive, as reflected by gross current asset days and a working capital cycle of 110 days (PY: 133 days) and 99 days (PY: 75 days), respectively, in FY24. The working capital cycle has increased due to a rise in the inventory holding period, while the collection and creditors' periods remained stable. The inventory holding period was high at 94 days in FY24 (PY: 73 days) due to increased inventory levels. Raw materials and finished goods constituted 27% and 73% of the total inventory, respectively. In FY24, the average collection period stood at 38 days (PY: 36 days), while the average

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

creditors period stood at 33 days (PY: 34 days). Due to the seasonality of raw material availability in agricultural products, the company must maintain adequate raw material inventory to ensure uninterrupted production throughout the year.

Intense competition and fragmented nature of the industry

The commodity nature of the product makes the industry highly fragmented, with numerous players operating in the unorganised sector with less product differentiation. There are several small-scale operators that do not engage in end-to-end processing of rice from paddy. Instead, they merely complete a small fraction of processing and dispose-off the semi-processed rice to other big rice millers for further processing. The concentration of rice millers around the paddy-growing regions makes the business intensely competitive and limits the pricing flexibility of industry participants.

Leveraged capital structure and debt coverage indicators

The capital structure stood leveraged, as marked by overall gearing of 2.06x on March 31, 2024 (2.38x as on March 31, 2023) with high reliance on external debt. Its debt profile largely comprises working capital debt. As on March 31, 2024, total outside liabilities to net worth stood high at 2.25x (improved from 4.16x as on March 31, 2023), while debt equity ratio stood at 0.34x (improved from 0.60x as on March 31, 2023). The improvement in capital structure was on account of accretion of profits to reserves and repayment of term debt. Debt coverage indicators stood strained, as marked by PBILDT interest coverage of 2.4x in FY24 (1.67x in FY23) and high total debt to gross cash accruals (TD/GCA) of 8.25x in FY24 (16.41x in FY23). Improvement during the year was due to improvement in profitability and stable debt levels.

Profitability susceptible to vagaries of nature and shifts in government policies

Paddy and wheat are the main inputs of the company, and their prices fluctuate depending on availability, which, in turn, depends on the monsoon and crop production in the season. Their prices are also regulated by the government to safeguard farmers' interests, limiting the bargaining power of mills over farmers. Since the prices of finished products in the market are influenced by the raw material cost—fixed by the Government of India (GoI) through the MSP mechanism—the industry's profitability margins remain vulnerable, especially in periods of low cultivation when the GoI imposes export prohibitions or increases export tariffs.

Key strengths

Favourable location of operations

The company has location advantage with the manufacturing facility at Konaseema in East Godavari district, which is quite close to district headquarters of Kakinada (the biggest port and one of the prominent paddy-growing belts in Andhra Pradesh). The presence of operations in the vicinity of paddy-producing regions gives it an advantage over competitors operating elsewhere in terms of easy availability of raw material and favourable pricing terms.

Diversified customer and supplier base

The promoters, having been in the industry for over three decades, have established relationships with suppliers and customers across Andhra Pradesh, Telangana, Karnataka, Delhi, and Chhattisgarh. The company has a diversified clientele, with ~350 dealers in its portfolio. The top five customers contributed ~10.15% and 18.17% of the total operating revenue in FY24 and 9MFY25, respectively, while the top five suppliers accounted for ~10.70% and 11.91% of total purchases in the same periods.

Experienced and resourceful promoters

The company was promoted by Venkata Reddy Sabbella and Kasi Eswara Reddy Sabbella. Promoters have over three decades of experience in the rice and wheat industry through, which they established contacts with suppliers and dealers. Promoters and their family look after the day-to-day operations of the company, and they are assisted by qualified staff. Promoters are resourceful and infuse funds in the form of unsecured loans to support the company's operations whenever required.

Liquidity: Stretched

Liquidity is stretched, marked by moderate current ratio, low quick ratio, high utilisation of working capital limits although healthy cash accruals against low debt repayments. As on March 31, 2024, while the current ratio stood at 1.34x, its quick ratio remained low at 0.25x. In the 12 months ended December 2024, the average utilisation of fund-based working capital limits of ₹40 crore stood at 98.7%, while the average utilisation of non-fund-based limits of ₹5 crore stood at 92%. It maintains moderately high level of inventory. While cash flows from operations was positive at ₹2.84 crore in FY24 (PY: ₹0.13 crore), unencumbered cash and bank balance stood at ₹1.49 crore as on March 31, 2024.

Assumptions/Covenants: Not applicable

Environment, social, and governance (ESG) risks: Not applicable

Applicable criteria

Definition of Default
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Manufacturing Companies
Financial Ratios – Non financial Sector
Short Term Instruments

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

HAPL is a public limited company incorporated on October 12, 2009. It specialises in milling paddy, wheat, and black gram into products, such as idli ravva, rice flour, urad dal, whole wheat flour, boiled rice, and raw rice, which are sold under its own brand name "Cow". The company's manufacturing unit is in the Konaseema district of Andhra Pradesh, with a total installed capacity of 1.32 lakh metric tons per annum across all divisions.

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)	9MFY25 (UA)
Total operating income	167.39	148.33	130.62
PBILDT	5.21	8.67	4.19
PAT	0.89	3.28	0.77
Overall gearing (times)	2.38	2.06	2.50
Interest coverage (times)	1.67	2.40	1.62

A: Audited UA: Unaudited; 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 (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned and Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	40.00	CARE BB; Stable
Fund-based - LT-Term Loan		-	-	10-09-2027	0.41	CARE BB; Stable
Fund-based - LT-Working capital Term Loan		-	-	18-02-2027	1.29	CARE BB; Stable
Fund-based - ST-Standby Line of Credit		-	-	-	3.00	CARE A4
Non-fund-based - ST-Bank Guarantee		-	-	-	5.00	CARE A4
Non-fund-based - ST-Forward Contract		-	-	-	0.15	CARE A4

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-Cash Credit	LT	40.00	CARE BB; Stable				
2	Fund-based - LT-Term Loan	LT	0.41	CARE BB; Stable				
3	Fund-based - LT-Working capital Term Loan	LT	1.29	CARE BB; Stable				
4	Fund-based - ST-Standby Line of Credit	ST	3.00	CARE A4				
5	Non-fund-based - ST-Bank Guarantee	ST	5.00	CARE A4				
6	Non-fund-based - ST-Forward Contract	ST	0.15	CARE A4				

LT: Long term; ST: 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 - LT-Working capital Term Loan	Simple
4	Fund-based - ST-Standby Line of Credit	Simple
5	Non-fund-based - ST-Bank Guarantee	Simple
6	Non-fund-based - ST-Forward Contract	Simple

Annexure-5: Lender details

 To view 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 for clarifications.

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About us:

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