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Credit Appraisal of Eastern Agro Exports Private Limited

Abstract

This case focuses on the credit appraisal of Eastern Agro Exports Private Limited, a major exporter of halal meat and agro products seeking renewal and enhancement of working capital limits from Coastal Bank Ltd. The company's strong market position is offset by high working capital intensity, rising leverage, and thin profit margins. The case challenges practitioners to assess the borrower's financial trends, evaluate collateral adequacy, and consider the impact of partial hedging of foreign currency receivables. It illustrates the practical balance between supporting a large client and enforcing credit discipline, while highlighting opportunities to strengthen risk mitigation through tighter monitoring and increased use of forward contracts.

In March 2024, Meera Nair, Senior Credit Officer at Coastal Bank Ltd., reviewed the annual credit renewal proposal for Eastern Agro Exports Private Limited (EAEPL), one of India's largest exporters of halal meat and agro-based products. The company had requested the continuation and enhancement of its working capital limits to support procurement and processing for the upcoming export season.

EAEPL maintained a substantial scale of operations, with revenues exceeding ₹6,600 crore in FY2024 and a presence in over 40 countries, primarily in the Middle East and Southeast Asia. However, Meera noted that the business operated on thin profit margins and carried high working capital intensity, with significant short-term borrowings and a rising cash conversion cycle.

The proposal was part of a multiple banking arrangement involving several banks. Given the increased exposure and recent trends of declining profitability and higher leverage, Meera's assessment and recommendation would play a critical role in determining whether the bank should endorse the enhancement.

Business Model and Operations

EAEPL was established in 1991 and had emerged as a leading exporter of halal-certified boneless buffalo and sheep meat. Over the years, the company had diversified its product portfolio to include

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processed foods, spices, fresh fruits, vegetables, and garments, though meat products continued to account for nearly 86% of its revenue.

The company operated five integrated meat processing facilities across India, all certified under ISO 22000:2018 and HACCP standards by Société Générale de Surveillance (SGS). These plants handled the entire cycle—from livestock procurement to final packaging—supported by advanced processing and cold chain infrastructure to maintain product quality during export transit.

EAEPL supplied to over 40 countries, with the United Arab Emirates, Malaysia, and Indonesia as its key markets. Sales were predominantly to established importers and distributors under annual contracts and spot orders. The company marketed its products under multiple brands, including Amroon, Al Tamam, and Al Fadeel, and regularly participated in international food exhibitions to sustain brand visibility.

The business was inherently working capital intensive. Procurement of raw material and processing incurred substantial upfront costs, while credit terms extended to buyers ranged from 30 to 60 days. Inventory levels had increased significantly in recent years due to efforts to maintain continuous supply pipelines and to buffer against logistical disruptions.

Given its export orientation, EAEPL also carried significant currency risk exposure, with most receivables denominated in USD or AED. Although the company entered into forward contracts to partially hedge currency exposure, Meera was aware that unhedged portions remained material relative to operating margins, and any sharp exchange rate movement could affect profitability.

While the company’s scale and market presence provided competitive advantages, the thin profitability, dependence on regulated overseas markets, and sustained high working capital requirements presented operational and financial challenges that required careful appraisal.

Financial Position

Meera turned to the financial statements for the five years ending March 2024 to understand the company’s performance trajectory.

EAEPL had reported consistent revenue growth, with operating income rising from ₹5,369 crore in FY2022 to ₹6,653 crore in FY2024. However, this growth moderated in FY2024 to 8.1%, compared to 14.6% in the previous year.

Operating profitability remained modest for the scale of operations. The EBITDA margin declined from 5.5% in FY2023 to 4.3% in FY2024, reflecting increased input costs and logistics expenses. Net profit fell to ₹153 crore in FY2024 from ₹210 crore in FY2023, translating to a net margin of only 2.3%.

The balance sheet as of March 31, 2024, showed total assets of ₹2,664 crore. Current assets accounted for nearly two-thirds of the asset base, primarily inventories of ₹833 crore and receivables of ₹683 crore. Meera noted that inventory days had increased from 32 to 46, and the cash conversion cycle extended to 69 days, indicating growing working capital intensity.

Borrowings rose sharply during the period. Short-term borrowings increased from ₹718 crore in FY2023 to ₹1,136 crore in FY2024, while long-term borrowings stood at ₹128 crore. The debt-to-equity ratio rose from 0.9x to 1.3x, and interest coverage ratio declined from 7.6 to 4.2, signalling tighter debt servicing capacity.

Key financial indicators for FY2024 were as follows:

- EBITDA Margin: 4.3%
- Net Profit Margin: 2.3%
- Debt-to-Equity Ratio: 1.3x
- Current Ratio: 1.2x
- Interest Coverage Ratio: 4.2x
- Return on Equity: 15.3%

Despite the decline in margins and increase in leverage, EAEPL continued to maintain a healthy net worth of nearly ₹998 crore, supported by retained earnings. The conduct of banking facilities across consortium lenders remained satisfactory, with no material instances of overdue obligations.

While the company's scale and consistent turnover were strengths, Meera noted that the combination of rising debt, thinner margins, and negative operating cash flows in FY2024 warranted close scrutiny before recommending any enhancement of working capital limits.

Assessment of Working Capital Requirements

The company's credit proposal included renewal of existing working capital limits and an enhancement to accommodate higher procurement volumes projected for the coming export season.

EAEPL operated in a segment where procurement, processing, storage, and export cycles demanded substantial working capital. During FY2024, the average inventory holding increased significantly to 46 days, compared to 32 days in earlier years. Receivable days remained steady at 37 days, but the absolute value of receivables had grown to ₹683 crore by year-end.

Based on the operating cycle method, the working capital assessment prepared by the lead bank indicated the following average holding periods:

- Inventory: 46 days
- Receivables: 37 days
- Payables: 15 days

The cash conversion cycle of 69 days reflected an extended period between cash outflow for procurement and cash inflow from collections. This had directly contributed to negative operating cash flows of ₹56 crore in FY2024, compared to a positive ₹216 crore the year before.

To fund this increased requirement, the company's short-term borrowings had risen to ₹1,136 crore as of March 31, 2024. Utilisation trends across the consortium limits showed consistently high drawdowns, often exceeding 90% of sanctioned limits during procurement peaks.

For FY2025, the company projected turnover growth of approximately 12% and proposed incremental working capital limits to match the larger procurement plans. The requested enhancements included:

- **Export Packing Credit:** Additional sanction of ₹100 crore

- **Cash Credit Limits:** Renewal at existing levels with minor upward revisions
- **Bill Discounting Facilities:** Continuation at current limits

While the projected growth was broadly in line with historical trends, Meera observed that the assumption of improved cash flows rested on tighter inventory and receivables management, without clear evidence of structural changes to achieve these efficiencies.

She also noted that the company had hedged part of its foreign currency exposure through forward contracts, typically covering 40–50% of projected receivables. The balance remained unhedged, exposing earnings to exchange rate fluctuations.

Considering the moderate liquidity indicators, high utilisation of limits, and negative cash flows, Meera believed that any recommendation to endorse additional limits would require justification supported by evidence of improved operational discipline and robust order book visibility.

Risk Analysis

To form a balanced perspective, Meera prepared a structured analysis of the risks associated with EAEPL's operations and financial profile.

Business Risk: EAEPL operated in the highly regulated halal meat export industry, which was exposed to fluctuations in raw material costs, evolving sanitary regulations, and geopolitical dynamics. While the company held ISO 22000 and HACCP certifications and had not faced material rejections or bans, any breach of standards could lead to export restrictions or reputational damage.

The company's revenue was concentrated in Gulf and Southeast Asian markets, particularly the United Arab Emirates. Meera noted that any disruption in bilateral trade relations or changes in import policies in these regions could adversely affect sales volumes.

Foreign currency risk was another key consideration. Although EAEPL regularly entered into forward contracts to hedge around 40–50% of its receivables, a sizeable portion remained unhedged, leaving earnings vulnerable to sharp exchange rate movements. Given the thin operating margins, adverse currency trends could quickly erode profitability.

Financial Risk: On the financial front, Meera was concerned by the steady rise in leverage. The debt-to-equity ratio had increased from 0.9x in FY2023 to 1.3x in FY2024, driven by higher working capital borrowings.

Interest coverage declined to 4.2 times in FY2024, compared to 7.6 times the year before, reflecting both lower operating margins and higher finance costs.

Liquidity indicators were only moderate. The current ratio of 1.2x and negative cash flows from operations signaled the strain of rising inventory and receivables. The cash conversion cycle had lengthened to 69 days, with no clear strategy articulated for bringing it back to earlier levels.

Meera noted that the company's profitability was significantly lower than peers such as HMA Agro and Allanasons, who operated on higher EBITDA margins and more diversified customer bases.

Management and Governance Risk: EAEPL was a privately held company fully owned by its promoter, Mr. Salman Idris. The board comprised executive directors closely associated with the Orient Foods Group.

While the company was audited by Deloitte Haskins & Sells and maintained satisfactory statutory compliance, there were areas warranting closer scrutiny:

- Absence of independent directors, which limited independent oversight.
- Related party transactions with group companies amounting to ₹8.2 crore in FY2024.
- Delays in payments to certain MSME suppliers, though the amounts were modest relative to overall liabilities.

Although these issues did not yet constitute significant governance failures, Meera believed they were relevant in assessing overall credit risk, particularly in light of the rising scale of borrowings.

Overall, her risk assessment suggested that while EAEPL retained fundamental strengths—scale, market presence, and established brands—the combination of high working capital intensity, thinning margins, and increasing leverage required a prudent approach to any further exposure.

Meera also considered the regulatory framework governing foreign exchange hedging. Under RBI's Master Direction on Risk Management and Inter-Bank Dealings, exporters are permitted to hedge receivables through forward contracts, provided the contracts are linked to actual exposures. Banks are expected to verify underlying export orders, monitor outstanding forward positions, and ensure compliance with FEMA guidelines.

While EAEPL routinely booked forward contracts covering 40–50% of its receivables, the balance remained unhedged, creating a material exposure relative to operating margins. Meera noted that strengthening the hedging policy could not only reduce earnings volatility but also generate additional fee income for the bank. She decided that any recommendation for limit enhancement should include a condition requiring the company to maintain a higher proportion of forward cover going forward.

Security and Collateral

As Meera reviewed the security and collateral arrangements, she noted that EAEPL had availed facilities under a consortium arrangement involving multiple banks, including Coastal Bank, Federal Bank, HDFC Bank, and Qatar National Bank. Coastal Bank held a proportionate share of the primary and collateral security under the inter-creditor agreement.

Primary Security: The working capital limits were secured by a first pari passu charge on the company's entire current assets, including inventories, receivables, and other current assets across all processing units. The latest drawing power statements, certified by the statutory auditors, reflected aggregate current assets exceeding ₹1,500 crore, with variations across seasonal procurement cycles.

Consortium account statements showed that the drawing power utilization remained high, often above 85–90% during peak procurement months. Meera observed that any adverse movement in inventory valuation or collection delays could erode the available cushion against borrowings.

Collateral Security: The consortium held an equitable mortgage over several immovable properties owned by the company, including:

- A commercial land parcel and processing facility in Barabanki, Uttar Pradesh, valued at approximately ₹300 crore.
- A cold storage and packaging unit in Maharashtra, valued at ₹180 crore.

- Other ancillary properties including warehouses and flats mortgaged to different banks in the consortium.

Each lender's exposure was secured proportionately through pari passu charges registered with the Registrar of Companies.

Additional Security and Guarantees: Personal guarantees of the promoter, Mr. Idris, and certain group directors were also in place, providing an additional layer of comfort.

While the collateral coverage, when combined with current asset margins, was satisfactory in relation to total borrowings, Meera remained conscious that ultimate realization depended on the liquidity of inventory and the enforceability of security across jurisdictions.

Given the proposed enhancement in working capital limits, the company had offered to extend the charge to additional properties acquired in FY2024. However, valuations and title verifications were pending at the time of the appraisal.

Meera concluded that while the security package was comprehensive and supported by reputed external valuations, the inherent volatility of the business and dependence on current assets underlined the need for disciplined monitoring of drawing power and collateral coverage on an ongoing basis.

Decision Dilemma

Having reviewed the proposal in detail, Meera prepared to finalize her recommendation for the credit committee.

EAEPL remained a long-standing client with scale, established export markets, and satisfactory repayment history. However, the latest financials reflected moderating growth, declining margins, higher leverage, and prolonged working capital cycles.

She also noted that while the company hedged around half of its receivables, a large portion remained unhedged, leaving earnings vulnerable to exchange rate movements. Encouraging greater use of forward contracts would not only help stabilize cash flows but also provide the bank with additional fee-based income.

Meera identified three clear options:

1. **Approve the renewal and full enhancement**, contingent on satisfactory property valuations, confirmation of margins, and the company agreeing to increase hedging coverage to a defined threshold.

2. **Approve a partial enhancement**, linked to improved receivables management, tighter monitoring of cash flows, and a commitment to higher FX hedging.

3. **Renew existing limits without enhancement**, advising the company to improve working capital discipline, profitability, and currency risk management before considering further exposure.

She knew her recommendation would determine whether the bank continued to support a large exporter or adopted a more cautious approach in a business marked by operational complexity and liquidity stress.

Exhibit 1: Audited Balance Sheet of Eastern Agro Exports Private Ltd

BALANCE SHEET - AOC-4 (Rs. Crore)	*31 Mar, 2020*	*31 Mar, 2021*	*31 Mar, 2022*	*31 Mar, 2023*	*31 Mar, 2024*
Equity and Liabilities					
Equity					
Share Capital	27.32	27.32	27.31	27.31	27.31
Reserves and Surplus	440.98	602.98	775.59	928.95	970.51
Other Equity	0.00	0.00	0.00	0.00	0.00
Total Equity	**468.30**	**630.30**	**802.90**	**956.26**	**997.82**
Liabilities					
Non-current Liabilities					
Long Term Borrowings	94.05	83.11	154.86	102.76	127.92
Net Deferred Tax Liabilities	13.91	13.95	16.41	18.52	17.94
Other Long Term Liabilities	5.13	3.07	4.28	5.65	16.59
Long Term Provisions	8.09	10.22	11.72	12.86	14.46
Total Non-current Liabilities	**121.19**	**110.34**	**187.28**	**139.78**	**176.91**
Current Liabilities					
Short Term Borrowings	295.21	450.90	671.19	718.15	1,136.48
Trade Payables	105.95	147.44	184.28	212.81	266.05
Other Current Liabilities	99.47	38.18	25.54	44.70	83.89
Short Term Provisions	1.55	10.52	10.51	10.87	2.74
Total Current Liabilities	**502.18**	**647.05**	**891.52**	**986.54**	**1,489.16**
Total Equity and Liabilities	**1,091.67**	**1,387.69**	**1,881.69**	**2,082.58**	**2,663.89**

Assets

Net Fixed Assets					
Tangible Assets	404.68	405.72	658.44	646.00	694.04
Intangible Assets	5.43	4.47	4.70	4.72	4.90
Total Net Fixed Assets	**410.11**	**410.19**	**663.15**	**650.72**	**698.94**
Capital Work-in-progress	2.50	5.66	34.97	108.46	162.29
Other Non-current Assets					
Non-current Investments	0.00	0.00	0.00	0.00	0.00
Net Deferred Tax Assets	-	2.28	-	6.84	8.11
Long Term Loans and Advances	3.66	4.93	6.25	7.65	8.52
Other Non-current Assets	22.26	108.03	11.90	0.89	0.91

BALANCE SHEET - AOC-4 (Rs. Crore)	*31 Mar, 2020*	*31 Mar, 2021*	*31 Mar, 2022*	*31 Mar, 2023*	*31 Mar, 2024*
Total Other Non-current Assets	**25.92**	**115.23**	**18.15**	**15.38**	**17.54**
Current Assets					
Current Investments	0.00	0.00	0.00	0.00	0.00
Inventories	190.93	357.80	465.11	544.23	833.39
Trade Receivables	299.96	382.87	538.16	552.63	682.69
Cash and Bank Balances	49.08	75.13	74.61	108.13	128.20
Short Term Loans and Advances	1.40	1.45	4.54	2.90	5.12
Other Current Assets	111.78	39.36	83.01	100.14	135.73
Total Current Assets	**653.15**	**856.62**	**1,165.42**	**1,308.02**	**1,785.11**
Total Assets	**1,091.67**	**1,387.69**	**1,881.69**	**2,082.58**	**2,663.89**

Source: Probe42

Exhibit 2: Audited Profit and Loss Statement of Eastern Agro Exports Private Ltd

PROFIT & LOSS - AOC-4 (Rs. Crore)	*31 Mar, 2020*	*31 Mar, 2021*	*31 Mar, 2022*	*31 Mar, 2023*	*31 Mar, 2024*
Net Revenue	3,156.61	3,997.52	5,368.72	6,152.64	6,653.18
Operating Cost					
Cost of Materials Consumed	2,062.53	2,760.08	3,739.45	4,060.13	5,017.34
Purchases of Stock-in-trade	411.66	365.23	476.58	667.10	517.39
Changes in Inventories / Finished Goods	-105.60	-161.48	-98.10	-76.50	-281.50
Employee Benefit Expense	55.51	62.85	72.78	84.99	98.94
Other Expenses	486.18	727.16	935.55	1,075.21	1,016.11
Total Operating Cost	**2,910.28**	**3,753.84**	**5,126.27**	**5,810.93**	**6,368.28**
Operating Profit (EBITDA)	246.33	243.68	242.45	341.71	284.90
Other Income	18.41	34.22	43.85	25.13	25.89
Depreciation and Amortization Expense	35.04	35.48	33.76	39.35	46.25
Profit Before Interest and Tax	229.69	242.42	252.54	327.49	264.53
Finance Costs	28.72	18.34	20.31	42.88	62.71
Profit Before Tax and Exceptional Items Before Tax	200.97	224.08	232.24	284.61	201.82
Exceptional Items Before Tax	-	-	-	-	-

Profit Before Tax	200.97	224.08	232.24	284.61	201.82
Income Tax	47.31	61.82	60.43	75.04	49.03
Profit for the Period from Continuing Operations	153.66	162.27	171.81	209.58	152.79
Profit from Discontinuing Operations After Tax	-	-	-	-	-
Profit for the Period	**153.66**	**162.27**	**171.81**	**209.58**	**152.79**
PROFIT & LOSS - KEY SCHEDULE (Rs. Crore)	**31 Mar, 2020**	**31 Mar, 2021**	**31 Mar, 2022**	**31 Mar, 2023**	**31 Mar, 2024**
Managerial Remuneration	0.00	0.00	0.00	0.00	0.00
Payment to Auditors	0.65	0.45	0.54	0.59	0.61
Insurance Expenses	0.00	0.00	0.00	0.00	0.00
Power and Fuel	29.05	32.00	46.93	57.08	61.99

Source: Probe42