

Press Release

Hayath Foods

December 29, 2021



Rating Downgraded and Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	36.00		ACUITE A4 Reaffirmed
Bank Loan Ratings	7.00	ACUITE C Downgraded	
Total	43.00	-	-

Rating Rationale

Acuité has downgraded the long term rating to '**ACUITE C**' (**read as ACUITE C**) from '**ACUITE B**' (**read as ACUITE Single B**), and reaffirmed the short term rating at '**ACUITE A4**' (**read as ACUITE A Four**) on the Rs.43.00 crore bank facilities of Hayath Foods (HF).

The downgrade takes into account the recent delays in the debt servicing of a loan not rated by ACUITE.

About the Company

Hayath Foods (HF) is a Bangalore-based entity, established in 2007 by Mr. Syed Mateen Aga, Mr. Syed Tanzeem Aga, Mr. Syed Tahzeem Aga and Mr. Syed Tanzil Aga. HF is engaged in the processing of fruit pulp from mango, guava, tomato and papaya amongst others. The firm also exports fresh fruits and fruit pulp. Almost 60-75% of the sales are export sales to various countries viz. Germany, Lebanon, Netherlands, Saudi Arabia, UK, etc. On the other hand, the domestic clientele includes major reputed players in the branded processed foods industry and other small players.

Analytical Approach

Acuité has considered the standalone business and financial risk profile of HF while arriving at the rating.

Key Rating Drivers

Strengths

Established track record of operations with experienced management

HF possesses an established track record of over 14 years of operations in the business of processing of fruits to fruit pulps. Over the years of its operations, it has established long-term relationships with its various customers, suppliers and other stakeholders.

The overall operations of HF are looked after by Mr. Syed Mateen Aga, along with his sons – Mr. Syed Tahzeem Aga, Mr. Syed Tanzeem Aga and Mr. Syed Tanzil Aga. Mr. Syed Mateen Aga possesses a total experience of more than 5 decades in the fruits trading & processing industry, since he was engaged in fruits trading activities since 1968, and in fruits processing activities since 1984. On the other hand, Mr. Syed Tahzeem Aga, Mr. Syed Tanzeem Aga and Mr. Syed Tanzil Aga possess a total experience of over 15-16 years in the similar line of activities.

Diversified product portfolio and wide geographical reach

HF's product portfolio is diversified with various products viz. Alphonso mango, Alphonso mango pulp, guava, guava pulp, papaya, red papaya concentrate, Sendura mango &

pulp, tomato, tomato paste, Totapuri mango, Totapuri mango concentrate, Totapuri mango pulp, white guava pulp, pink guava puree, etc. Moreover, the firm possesses a wide geographical reach with its exports spread across various countries viz. Germany, Lebanon, Netherlands, Saudi Arabia, UK, etc. and various cities in case of domestic sales.

Weaknesses

Modest scale of operations and low profitability

The scale of operations of HF stood modest with an operating income worth Rs.53.72 crore in FY21 (Prov.) as against Rs.57.20 crore and Rs.46.90 crore in FY20 and FY19 respectively. The operating income declined from Rs.57.20 crore in FY20 to Rs.53.72 crore in FY21 (Prov.) owing to disruptions led by the first wave of COVID-19 pandemic, coupled with unstable demand in October 2020 to December 2020 in anticipation of further spread of COVID-19. Moreover, the second wave of COVID-19 pandemic also hit the firm's operations in the month of March 2021.

The EBITDA margin of HF stood moderate at 7.57% in FY21 (Prov.) as against 7.54% and 11.15% in FY20 and FY19 respectively. Despite the moderate EBITDA margin, the PAT margin stood low at 0.45% in FY21 (Prov.) as against 0.39% and 0.42% in FY20 and FY19 respectively owing to high interest costs. Given this, the profitability stood low with PAT worth Rs.0.24 crore in FY21 (Prov.) as against Rs.0.22 crore and Rs.0.20 crore in FY20 and FY19 respectively.

Highly leveraged capital structure and weak debt coverage indicators

The capital structure of HF stood highly leveraged with an overall gearing of 7.02 times as on March 31, 2021 (Prov.) as against 2.38 times as on March 31, 2020. The overall gearing deteriorated significantly in FY21 (Prov.) over FY20 owing to a significant withdrawal of capital. This is reflected in the tangible net-worth base which decreased significantly from Rs.16.54 crore as on March 31, 2020 to Rs.5.55 crore as on March 31, 2021 (Prov.). Given this, coupled with low profitability, the debt coverage indicators also stood weak with an interest coverage and DSCR of 1.39 times each in FY21 (Prov.) as against 1.47 times each in FY20.

Delays in debt servicing marked by highly stretched WC cycle

The liquidity profile of HF is poor marked by delays in debt servicing as on December 27, 2021 in a term loan and a GECL loan. In both of these loans, the firm has been lagging behind by at least one installment, with asset categorization of SMA-2 for both the loans. This is led by highly stretched WC cycle due to highly stretched inventory holding led by very slow turnaround of operations. However, there are no overdues exceeding 30 days in the working capital facilities.

The operations of HF are highly working capital intensive in nature with a majority of funds blocked in inventory, wherein the inventory holding stood elongated at 316 days in FY21 (Prov.) as against 286 days and 406 days in FY20 and FY19 respectively owing to volatile demand from the customers, wherein the finished goods are kept in stock until the customers call for them, due to which the same has been fluctuating over FY19-FY21 (Prov.). Given this, the WC cycle stood elongated at 199 days in FY21 (Prov.) as against 298 days and 411 days in FY20 and FY19 respectively, whereas the GCA days also stood elongated at 384 days in FY21 (Prov.) as against 343 days and 438 days in FY20 and FY19 respectively. Given this, the average WC utilization in the last 6 months ended November 2021 stood at almost full levels.

Presence in competitive & fragmented industry with seasonal nature of operations coupled with exposure to foreign exchange fluctuation risk

HF's major sales are through exports to Germany, Lebanon, Netherlands, Saudi Arabia, UK, etc., thus being exposed to fluctuations in foreign currency. On the other hand, operating in a seasonal industry, the raw materials are prone to price fluctuations. Moreover, the firm also remains vulnerable to agro-climatic risks since it deals with mangoes. Being seasonal, the prices of fruit pulp are vulnerable to the idiosyncrasies of nature. Furthermore, the firm is also exposed to competition from a number of small players which are also engaged in processing of various fruits into fruit pulp. Additionally, the presence of reputed retail chains all over the world intensifies the already prevailing competition in the industry.

Partnership nature of constitution

HF is exposed to inherent risk of partners' capital being withdrawn at the time of personal contingency. Due to the partnership nature of constitution, it has restricted access to external borrowing where net-worth as well as credit worthiness of the partners are the key factors affecting credit decision of lenders. In FY21 (Prov.), the partners have withdrawn Rs.10.64 crore of capital from the firm.

Rating Sensitivities

- Regularization of debt servicing track record
- Improvement in the overall liquidity position

Material covenants

None

Liquidity Position: Poor

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Outlook: Not Applicable

Other Factors affecting Rating

Not Applicable

Key Financials

Particulars	Unit	FY 21 (Provisional)	FY 20 (Actual)
Operating Income	Rs. Cr.	53.72	57.20
PAT	Rs. Cr.	0.24	0.22
PAT Margin	(%)	0.45	0.39
Total Debt/Tangible Net Worth	Times	7.02	2.38
PBDIT/Interest	Times	1.39	1.47

Status of non-cooperation with previous CRA (if applicable)

ISSUER NOT COOPERATING by CARE as per its press release dated October 8, 2021. Suspended by CRISIL as per its press release dated January 29, 2013.

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Entities In Manufacturing Sector -<https://www.acuite.in/view-rating-criteria-59.htm>
- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
01 Jun 2021	Packing Credit	Short Term	17.00	ACUITE A4 (Issuer not co-operating*)
	Cash Credit	Long Term	8.00	ACUITE B (Issuer not co-operating*)
	Letter of Credit	Short Term	6.00	ACUITE A4 (Issuer not co-operating*)
	Post Shipment Credit	Short Term	12.00	ACUITE A4 (Issuer not co-operating*)
29 Feb 2020	Packing Credit	Short Term	17.00	ACUITE A4 (Issuer not co-operating*)
	Letter of Credit	Short Term	6.00	ACUITE A4 (Issuer not co-operating*)
	Cash Credit	Long Term	8.00	ACUITE B (Downgraded and Issuer not co-operating*)
	Post Shipment Credit	Short Term	12.00	ACUITE A4 (Issuer not co-operating*)
21 Dec 2018	Letter of Credit	Short Term	6.00	ACUITE A4 (Reaffirmed)
	Cash Credit	Long Term	8.00	ACUITE B+ Stable (Reaffirmed)
	Packing Credit	Short Term	17.00	ACUITE A4 (Reaffirmed)
	Post Shipment Credit	Short Term	12.00	ACUITE A4 (Reaffirmed)
02 Apr 2018	Letter of Credit	Short Term	4.00	ACUITE A4 (Reaffirmed)
	Cash Credit	Long Term	6.00	ACUITE B+ Stable (Downgraded from ACUITE BB- Stable)
	Packing Credit	Short Term	15.00	ACUITE A4 (Reaffirmed)
	Post Shipment Credit	Short Term	9.41	ACUITE A4 (Reaffirmed)
31 Mar 2017	Letter of Credit	Short Term	4.00	ACUITE A4 (Assigned)
	Cash Credit	Long Term	6.00	ACUITE BB- Stable (Assigned)
	Packing Credit	Short Term	15.00	ACUITE A4 (Assigned)
	Post Shipment Credit	Short Term	9.41	ACUITE A4 (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
J&K Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	7.00	ACUITE C Downgraded (from ACUITE B)
J&K Bank	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	6.00	ACUITE A4 Reaffirmed
J&K Bank	Not Applicable	PC/PCFC	Not Applicable	Not Applicable	Not Applicable	20.00	ACUITE A4 Reaffirmed
J&K Bank	Not Applicable	Post Shipment Credit	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE A4 Reaffirmed

Contacts

Analytical	Rating Desk
Aditya Gupta Vice President-Rating Operations Tel: 022-49294041 aditya.gupta@acuite.in	Varsha Bist Senior Manager-Rating Operations Tel: 022-49294011 rating.desk@acuite.in
Sonali Ved Senior Analyst-Rating Operations Tel: 022-49294065 sonali.ved@acuite.in	

About Acuité Ratings & Research

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