

Press Release

NATURES CANE FOODS LLP

May 21, 2019



Rating Assigned

Total Bank Facilities Rated*	Rs. 9.50 Cr.
Long Term Rating	ACUITE B / Outlook: Stable

* Refer Annexure for details

Rating Rationale

Acuité has assigned long-term rating of '**ACUITE B**' (**read as ACUITE B**) to the Rs.9.50 crore bank facilities of NATURE'S CANE FOODS LLP (NCF). The outlook is '**Stable**'.

Natures Cane Foods LLP is established in 2015 by the partners namely Mr. Prem Chand Avula, Mr. Gopichand Avula and others. The firm is in the process of setting up a processing unit of vegetable and fruits juices by using High Pressure Processing (HPP) technology at Mega food Park, Mallavalli, Krishna District, Andhra Pradesh. The unit is expected to be operational during Q3FY2021.

Analytical Approach

Acuité has taken a standalone view of the business and financial risk profile of NCF to arrive at the rating.

Key Rating Drivers

Strengths

- **Experienced management**

The promoters, Mr. A. Prem Chand, Mr. A. Gopichand, Mr.R. Marayya, Mr. KVV Prasad, Mr. B.D.Kumar Reddy, Ms. A. Sailaja have entrepreneurial experience for over two decades in several industries. Fruit juice market share within juice market is about 30 per cent with overall revenues of about Rs.15 billion; however, there is potential to grow at over 15 per cent over the medium term. The growth trajectory, improving demand for 100 per cent fruit content juice is expected to support the business opportunity of NCF besides large scope for HPP based fruit juice. The promoters have acquired the land at Mega Food Park, ideal location for sourcing of material and distribution across the markets. Acuité believes that promoters' entrepreneurial experience, market demand is expected to support its business risk profile over the medium term though timely completion and operationalization of the unit are key rating sensitivity factors.

Weaknesses

- **Ongoing capex and funding risk**

The firm is setting up the processing unit at a project cost of around Rs.14.35 crore; the same is proposed to be funded out of term loan of Rs.9.50crore, and rest through equity and unsecured loan. The promoters' have invested on purchase of land and other costs of about Rs.0.50 Crs till April 2019 and the projected timelines for commercial operations are Q3FY2021. The firm has approached the bank for sanction of term loan and is waiting for financial closure; this exposes it to funding and implementation risk. Acuité believes that any undue delay in sanction and disbursement of term loan is expected to delay the project completion and commercial operations.

- **Susceptibility to changes in regulations, customer preferences and competition**

NCF's ratings are also susceptible to adverse regulatory changes, consumer preferences and seasonality; as major portion of revenue generation happens during summer season. Also, there are lot of organised and unorganised players in fruit juice market to penetrate and increase their share as well as market size; however, HPP based fruit juice product is at nascent stage and costly compared to regular juices of large multinationals which poses a challenge in marketing and withstanding in the market.

Liquidity Position:

NCF is at project level operations. Its expected accruals post commercialisation is expected to be at modest levels though sufficient to cover the debt obligations. Liquidity will be aided by the financial support extended by the promoters.

Outlook: Stable

Acuité believes that the outlook on NCF will remain 'Stable' over the medium term on account of its experienced promoters. The outlook may be revised to 'Positive' in case of early completion of the project and better than expected cash accruals. Conversely, the outlook may be revised to 'Negative' in case of any cost or time overrun in the project or less-than-expected accruals leading to stretch in its liquidity.

About the Rated Entity - Key Financials

Not Applicable. NCF is expected to commence operations in Q32021.

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

Not Applicable

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Trading Entities - <https://www.acuite.in/view-rating-criteria-6.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>
- Services Sector Entities - <https://www.acuite.in/view-rating-criteria-8.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Not Applicable

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Proposed Term Loan	Not Applicable	Not Applicable	Not Applicable	9.50	ACUITE B / Stable

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About Acuité Ratings & Research:

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