

Press Release

NAQ Foods India Private Limited

October 18, 2021

Rating Assigned



Total Instruments Rated*	Rs. 17.00 Cr
Long Term Rating	ACUITE BBB-/ Outlook: Stable (Assigned)

* Refer Annexure for details

Rating Rationale

Acuite has assigned its long term rating of '**ACUITE BBB-**' (read as **ACUITE triple B 'minus'**) on the Rs.17.00 Cr bank facilities of NAQ Foods India Private Limited (NAQFPL). The outlook is '**Stable**'.

Rationale for rating assigned

The rating takes into account NHN Group's moderate business risk profile marked by experienced promoters, established track record in Andhra Pradesh and consistent growth in the scale of operations. The rating also factors in its above-average financial risk profile marked by a moderate network, improving gearing and moderate debt protection metrics. These strengths are partially constrained by its working capital operations marked by moderate GCA days, competitive environment in industry, inherent risk of susceptibility in raw material prices and regulatory risk.

About the Firm

Established in 2018 and based in Eluru, (Andhra Pradesh), NAQ Foods India Private Limited (NAQFPL) is promoted by Ms. Nukala Ammaji and other family members. The company is primarily engaged in the business of freezing and exporting shrimps as merchant exporter.

About the Group Entities

Established in 1999 and based in Vishakhapatnam, (Andhra Pradesh), Nukala Ramakrishna (NRK) is the proprietor of the proprietorship firm 'Naga Hanuman Fish Packers'. The firm initially ventured into the business of cultivation and trading of fish. Later, the firm diversified into processing and export of shrimps. The fish cultivation division of the firm was transferred to another group entity. As of September 2021, the firm remains primarily engaged in processing and export of shrimps with processing capacity of 16,500 Metric Ton (MT) (increased from 12,000 MT).

Established in 2004 and based in Vishakhapatnam, (Andhra Pradesh), Naga Hanuman Solvent Oils Private Limited (NHSOPL) is promoted by Mr. Nukala Ramakrishna and other family members. The company is primarily engaged in the business of extracting, processing and refining oils and other extracts (edible and non-edible). The company has installed capacity for solvent extraction of 1,20,000 MT, refinery of 18,250 MT and cotton seed of 1,09,500 MT.

Established in 2008 and based in Denduluru, (Andhra Pradesh), Naga Hanuman Agro Oils Private Limited (NHAOPL) is promoted by Mr. Nukala Ramakrishna and other family members. The company is primarily engaged in diverse agro activities like refining of rice bran oil, rice milling, and other agriculture and horticulture related activities. The company has installed capacity for refining of rice bran oil of 54,750 MT, Polymers manufacturing of 3,650 MT, Rice mill of 52,560 MT and solvent extraction of 54,750 MT.

Analytical Approach

For arriving at this rating, Acuite has consolidated the business and financial risk profiles of Nukula Ramakrishna (NRK), Naga Hanuman Agro Oils Private Limited (NHAOPL), Naga Hanuman Solvent Oils Private Limited (NHSOPL) and NAQ Foods India Private Limited (NAQFPL) together referred to as the 'Naga Hanuman Group (NHN Group)'. The consolidation is in the view of common management, similar line of business in food processing industry, operational and financial linkages between the entities. Extent of consolidation: Full.

Key Rating Drivers

Strengths

- **Promoters' extensive experience in food processing industry; Established regional player in Andhra Pradesh**

NHN Group is promoted by Mr. Nukala Ramakrishna who has been associated with the group since its inception; this has helped the group to establish strong market presence. Mr. N Ramakrishna looks after the day-to-day operations of the group and is assisted by his son - Mr. N Lakshmana Rao and Mr. N. Balaji along with a team of experienced professionals down the line. The revenue of the group has grown at a compound annual growth rate (CAGR) of ~12 per cent for last three years ending FY2021 (Prov). The operating income has increased to Rs.1023.33 Cr in FY2021 (Prov) from Rs.906.59 Cr. in FY2020, further, the group has achieved revenue of Rs.443.77 Cr for 5MFY2021. The group operates at moderate profitability margins marked by operating margin (EBITDA) of 3.88 percent in FY2021 (Prov) which has improved in comparison with the previous year. The group caters to the international customers by exporting the products into various countries namely USA, China, UAE and South Korea amongst others. In the domestic market, the group supplies its products in the state of Gujarat, Madhya Pradesh, Tamil Nadu, Maharashtra, Punjab, Andhra Pradesh and Telangana amongst others. Over the years, Naga Hanuman group has developed a positive brand value in mindset of the stakeholders such as farmers, customers and creditors and is among the top renowned brand in the southern region of India. Acuite believes that the group will continue to derive benefits from its promoter's experience, its established presence and diversified geographical coverage providing healthy revenue visibility in medium term.

- **Diversified revenue mix; increase in the realizations per unit in FY2021**

NHN Group consists of Nakula Ramakrishna (Naga Hanuman Fish Packers)- engaged into processing of and exports of shrimps; Naga Hanuman Solvent Oils Private Limited - engaged into extraction and refining of solvents (edible oils and non-edible oils); Naga Hanuman Agro Oils Private Limited - engaged into refining activity of rice bran oil, cashew nut shell oil and production of thermacol lids and boxes; NAQ Foods Private Limited - engaged into freezing and exporting shrimps as merchant exporter. Rice Bran oil stands as the top product in terms of revenue among the products offered by the group, followed by processing of shrimps as of FY2021 (Prov). NHFP's sales volume of shrimp have improved to 54.08 Lakh in FY2021 against 42.24 Lakh in previous year. The realizations have remained stable at Rs.592 per unit in FY2021 against Rs.596 per unit in FY2020. NHAOPL's sales volume of refined oil have remained stable at 37,869 MTs in FY2021 against 39,047 MTs in previous year. However, the realizations have improved to Rs. 83,034 per MT in FY2021 against Rs. 66,758 per MT in FY2020. NHSOPL's sales volume of refined oil have improved to 13,681 MTs in FY2021 against 12,488 MTs in previous year. Besides, the realizations have improved to Rs. 83,159 per MT in FY2021 against Rs. 61,459 per MT in FY2020. NAQPL's sales volume of frozen shrimps have deteriorated to 9.14 Lakh in FY2021 against 15.84 Lakh in previous year. However, to compensate the volumes to an extent, the realizations have improved to Rs.433 per unit in FY2021 against Rs.252 per unit in FY2020. Acuite believes that NHN Group's diversified service offerings ensure low concentration on revenue profile and will ensure strong business profile over the medium to long term.

- **Moderate debt protection metrics and capital structure**

NHN Group's financial risk profile is moderate, marked by a moderate network, improving gearing and moderate debt protection metrics. The EBITDA margins of the group improved to 3.88 per cent in FY2021 (Prov) against 3.32 in FY2020. The PAT margins of the company has improved to 2.23 per cent in FY2021 (Prov) in comparison to 1.75 per cent in FY2020. The improvement is attributable to decrease in operating overheads such as admin, manufacturing and selling expenses. The improvement in profitability levels has led to improvement in the debt protection metrics. The interest coverage ratio (ICR) and debt service coverage ratio (DSCR) stood at 4.24 times and 2.44 times respectively in FY2021 (Prov) as against 4.21 and 2.09 times respectively in the previous year.

The net worth of the group stood at Rs.97.78 Cr as on 31 March, 2021 (Prov) as against Rs.76.56 Cr as on 31 March, 2020. The improvement is on account of accretion of net profit in the reserves during the period. The gearing level (debt-equity) stands improved at 1.37 times as on 31 March, 2021 (Prov) as against 1.43 times as on 31 March, 2020, the improvement is on account of marginal increase in net worth of the group against the total borrowings. TOL/TNW (Total outside liabilities/Total net worth) has improved and stands moderate at 2.17 times as on 31 March, 2021 (Prov) against 2.41 times in previous year. High TOL/TNW is on account of presence of high short term and trade payables levels during the period against previous year.

The total debt of Rs.113.77 Cr as on 31 March, 2021 (Prov) consist of long-term debt of Rs.7.55 Cr, USL from promoters/director/relatives of Rs.18.76 Cr, short term debt of Rs.102.18 Cr and maturing portion of long term

borrowings of Rs.5.27 Cr. NCA/TD (Net cash accruals to total debt) stands improved and stable at 0.22 times in FY2021 (Prov) as against 0.20 times in FY2020. Acuite expects the financial risk profile to remain healthy over the medium to long term period on account of moderate capital structure and stable operations of the group.

• **Capex underway for capacity expansion and venture into new product; resilient amidst covid-19 pandemic**

NHN Group is incurring a capex of Rs.8.00 Cr for capacity expansion of refinery and will be funded by term loan of Rs.5.20 Cr and remaining through internal accruals, equity and unsecured loans. The implementation of capex has begun in the month of May, 2021 and is expected to be completed by November, 2021. The demand risk stands low as the group has been witnessing high demand from the international markets and domestic markets. Besides, the group is in process of capex towards acquiring cooker technology installation of Rs.8.29 Cr and will be funded by term loan of Rs.6.00 Cr and remaining through internal accruals, equity and unsecured loans. The implementation of capex has begun in the month of September, 2021 and is expected to be completed by December, 2021.

NHN Group has stayed resilient during the covid-19 pandemic and recorded improved revenue in FY2021. The operating income increased to Rs.1023.33 Cr in FY2021 (Prov) from Rs.906.59 Cr. in FY2020. In FY2021, on account of pandemic, the business operations were limited to an extent in Q1 of FY2021. However, the company aims for sustainable growth with improved realizations and volumes in FY2022 and has recorded operating income of Rs.443.77 Cr in Q1 of FY2022 compared to Rs.393.73 Cr in Q1 of FY2021. Acuite believes that with an ongoing growth in demand in the industry backed by repeated orders from the customers, capex underway and the improvement demonstrated in Q1 of FY2022, the business risk profile of the company is expected to improve over the medium term.

Weaknesses

• **Working capital operations marked by moderate GCA days**

NHN Group's working capital cycle is marked by moderate gross current assets (GCA) days in the range of 62-79 days over the last 3 years ending March 31, 2021 (Prov). The GCA days are majorly marked by modest inventory and debtor days. The moderate GCA days of 79 days as on March 31, 2021 (Provisional) is on account of presence of marginally higher debtors amounting to nearly Rs.103.67 Cr on account of 2nd wave of covid-19 pandemic leading to delays in receivables collections. These are partially offset to an extent by creditor days at 29 days as on March 31, 2021 (provisional). The moderate GCA cycle has led to moderate utilization of around 74 per cent of working capital requirement bank lines of Rs.124.79 Cr over the past 7 months ending July, 2021. Acuite believes that the operations of the group will remain moderately working capital intensive on account of nature of the aqua-culture and agricultural related products industry.

• **Susceptible to volatility in raw material prices and regulatory risks**

The shrimp processing and export business is highly fragmented with presence of several small players and dependence on shrimp farms for raw material which limits bargaining power. Additionally, the procurement price of shrimp depends on catch and availability during a particular period, which exposes the company to volatility in product prices. The Indian edible oil industry is highly fragmented, with the presence of a large number of participants in the organized and unorganized sectors. This is due to low entry barriers such as low capital, low technical requirements of the business and liberal policy regime. This has resulted in severe competition and inherently thin profitability margins. Furthermore, as a portion of revenue is generated from exports, credit risk profile remains susceptible to volatility in forex rates. Besides, the company is also exposed to risk arising from regulatory changes and demand pattern in client countries and changes such as levy of anti-dumping duties by importing countries.

Liquidity Position: Adequate

NHN Group's liquidity is adequate marked by healthy generation of net cash accruals in FY2021 to its maturing debt obligations and moderate level of unencumbered cash and bank balance. The group has generated cash accruals in the range of Rs.22.01-29.35 Cr during last three years ending FY2021 (Prov) as against its long term debt obligations of Rs.6.40-6.58 Cr for the same period. The group's working capital is moderate as evident from Gross Current Asset (GCA) of 79 days as on March, 2021 (Prov) as compared to 62 days as on March, 2020. The current ratio stood at 1.21 times as on 31 March 2021 (Prov) against 1.05 in previous year. The moderate GCA cycle has led to moderate utilization of around 74 per cent of working capital requirement bank lines of Rs.124.79 Cr over the past 7 months ending July, 2021. The group maintained unencumbered cash and bank balances of Rs.9.50 Cr as on March 31 2021 (Prov) against Rs.5.09 Cr in previous year. In addition to this, the group has an unencumbered investment in form of fixed deposit and mutual funds worth Rs.14.66 Cr as on March 31, 2021.

Acuite believes that the liquidity of the group to remain healthy on account of stable scale of operations and healthy capital structure. The group is expected to generate NCA in range of Rs.28.48-52.17 Cr against maturing debt obligations in range of Rs.5.17-5.86 Cr over the medium term.

Rating Sensitivities

Positive

- Higher-than-expected Improvement in the scale of operations and profitability as envisaged
- Sustainable improvement in Leverage and Solvency position of the group.
- Sustainable improvement in Gross current assets (GCA) days.

Negative

- Any deterioration in working capital cycle and liquidity profile of the group.
- Any deterioration in Revenue profile and leverage position of the group.
- Any weakening of financial risk profile of the group.

Outlook: Stable

Acuite believes that NHN Group's rating will maintain a 'Stable' outlook over the medium term on account of long track record of operations and experienced management in the industry. The outlook may be revised to 'Positive' if the group registers sustainable improvement in sales volumes and realization per unit of the products offered leading to higher-than-expected revenues and profitability with improvement in financial risk profile. Conversely, the outlook may be revised to 'Negative' in case NHN Group registers lower-than-expected revenues and profitability or any significant stretch in its working capital management or larger than-expected debt- funded capital expenditure leading to deterioration of its financial risk profile and liquidity.

About the Rated Entity - Key Financials (Consolidated)

	Unit	FY21 (Provisional)	FY20 (Actual)
Operating Income	Rs. Cr.	1,023.33	906.59
PAT	Rs. Cr.	22.78	15.90
PAT Margin	(%)	2.23	1.75
Total Debt/Tangible Net Worth	Times	1.37	1.43
PBDIT/Interest	Times	4.24	4.21

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

Not Applicable

Any other information

None

Material Covenants

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Financial Ratios and Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-59.htm>
- Trading Entities - <https://www.acuite.in/view-rating-criteria-61.htm>
- Consolidation Of Companies- <https://www.acuite.in/view-rating-criteria-60.htm>

Note on complexity levels of the rated instrument

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

Rating History (Upto last three years)

Not Applicable

***Annexure – Details of instruments rated**

Lender Name	Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/ Outlook
Yes Bank	Cash Credit	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE BBB-/Stable (Assigned)
Yes Bank	PC/PCFC	Not Applicable	Not Applicable	Not Applicable	15.00	ACUITE BBB-/Stable (Assigned)

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About Acuité Ratings & Research:

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