

Press Release

NAQ Foods India Private Limited

January 16, 2023

Rating Reaffirmed



Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	17.00	ACUITE BBB- Negative Reaffirmed Stable to Negative	-
Total Outstanding Quantum (Rs. Cr)	17.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has reaffirmed 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 revised from 'Stable' to **'Negative'**.

Reason for change in outlook

The rating is reaffirmed considering the stable operating and financial performance of the Group, marked by stable operating income, range bound operating margins and moderate financial risk profile. However, higher than expected increase in the debt profile leading to deterioration of debt protection metrics provide a negative bias to the rating. The operating income of the group stood at Rs.1,150.40Cr in FY22 as against Rs.1,024.06 Cr in FY21, while the operating margin ranged between 2.85 - 3.15 percent during this period. The gearing levels though moderate, rose to 1.92 times as on March 31, 2022 as against 1.48 times as on March 31, 2021. Consequently, the debt protection metrics marked by debt to ebitda ratio also recorded a deterioration. Going forward, the Group ability to maintain its scale of operations while improving its profitability margins and capital structure will remain a key rating monitorable.

About Company

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

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 November 2022, 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

Extent of Consolidation

- Full Consolidation

Rationale for Consolidation or Parent / Group / Govt. Support

For arriving at this rating, Acuité has consolidated the business and financial risk profiles of Nukala 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.

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 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 Gujrat, 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. Acuité 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.

Stable operating performance, albeit declining margins

The revenue of the group has improved to Rs.1150.40 Cr in FY22 from Rs.1024.06 Cr in the previous year. This improvement in revenue is mainly due to the improved realisations in FY22. However, the operating margins have not improved commensurate with the realisations, the operating profitability recorded a slight deterioration in FY22 as it stood at 2.86 percent during the year as against 3.12 percent in the previous year. The decline is mainly on account of increased raw material prices. The raw material purchase prices are prone to fluctuations in

the industry. However, Acuite expects the margins to improve in the medium term, on account of measure undertaken by the group to improve its cost efficiency.

Moderate Financial Risk Profile:

NHN Group's financial risk profile is moderate, marked by a moderate Networth and moderate gearing and a comfortable debt protection metrics. The net worth of the group stood at Rs.95.88Cr as on March 31, 2022 as against Rs.90.08Cr in previous year. The gearing level deteriorated to 1.92 times as on March 31, 2022 as compared to 1.52 times in previous year. This is on account of both withdrawal of capital of Rs.7.00Cr from the partnership firms in the Group and additional debt availed for capex.. The total debt of the Group stood at Rs.183.84 Cr as on March 31, 2022 which includes Rs.121.48 Cr of short term borrowings, Rs. 34.36 Cr of long term borrowings and Rs,30 Cr of unsecured loans from promoters or related parties. The debt protection metrics of the Group is comfortable marked by interest coverage ratio of 3.63 times in FY22 as against 3.08 times in FY21. The Debt-EBITDA stood at 5.11 times as on March 31, 2022 as against 3.95 times in previous year.

Weaknesses

Working capital intensive operations marked by moderate GCA days:

Naga Hanuman Group's working capital cycle is efficiently managed which is evident from the Gross Current Asset (GCA) days in the range of 63-71 from past 3 years ending March 31,2022. GCA days slightly improved to 71 days as on March 31 ,2022 from 77 days in the previous year. This is on account of decrease in the debtors as on March 31, 2022. Creditor days has improved to 19 days as on March 31, 2022 from 25 days in the previous year. The moderate GCA days led to the moderate utilization of around 70 percent of working capital limits during the past 12 months ending December,2022. 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.

Rating Sensitivities

- > Significant improvement in the scale of operations and profitability
- > Further deterioration of financial risk profile of the group.

Material Covenants

None

Liquidity : Adequate

The group has adequate liquidity as the group has sufficient Net Cash Accruals of Rs.23.52 Cr for FY2022 against its maturing debt obligations of Rs.7.61Cr for the same year. The group is expected to generate net cash accruals in the range of Rs.37-42 Cr over the period FY23-24

against repayment obligations ranging between Rs.6-8 Cr. The gross current asset days stood at 71 days as on March 31, 2022. The bank limits remained moderately utilized at an average of nearly 70 per cent for the 12 months ending December ,2022. The group has unencumbered cash and bank balance of Rs.8.46 Cr as on March 31, 2022 and its current ratio stood at similar levels of previous years at 1.25 times. The group is maintaining investments of Rs20.5Cr in form of FD and Mutual funds. Acuite believes the liquidity position will remain adequate over the medium term in view of the expected moderate net cash accruals against repayment obligations.

Outlook: Negative

Acuite has revised the outlook of the group Stable to Negative based on the deterioration in the financial risk profile and higher than expected debt leading to deterioration in Debt/EBITDA levels. The outlook may be revised to 'Stable' , if the group registers higher than expected growth in its revenue while improving its operating margins from its current levels while maintaining its financial risk position. Conversely, the rating might be 'downgraded' in case of any further deterioration in leverage indicators from the current levels or further deterioration in debt protection metrics.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	1150.40	1024.06
PAT	Rs. Cr.	15.20	14.73
PAT Margin	(%)	1.32	1.44
Total Debt/Tangible Net Worth	Times	1.92	1.48
PBDIT/Interest	Times	3.63	3.08

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

None

Any Other Information

None

Applicable Criteria

- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>
- Consolidation Of Companies: <https://www.acuite.in/view-rating-criteria-60.htm>
- Default Recognition: <https://www.acuite.in/view-rating-criteria-52.htm>
- Manufacturing Entities: <https://www.acuite.in/view-rating-criteria-59.htm>
- Rating Process and Timeline: <https://www.acuite.in/view-rating-criteria-67.htm>

Note on Complexity Levels of the Rated Instrument

In order to inform the investors about complexity of instruments, Acuite has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
18 Oct 2021	Cash Credit	Long Term	2.00	ACUITE BBB- Stable (Assigned)
	Packing Credit	Long Term	15.00	ACUITE BBB- Stable (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Yes Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	2.00	ACUITE BBB- Negative Reaffirmed Stable to Negative
Yes Bank Ltd	Not Applicable	PC/PCFC	Not Applicable	Not Applicable	Not Applicable	Simple	15.00	ACUITE BBB- Negative Reaffirmed Stable to Negative

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About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI) for Bank Loan Ratings under BASEL-II norms in the year 2012. Acuité has assigned ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

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