

Press Release
NAQ Foods India Private Limited
April 15, 2024
Rating Reaffirmed



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

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 to **'Stable'** from **'Negative'**.

Rationale for rating reaffirmation and revision in outlook:

The reaffirmation of rating is due to stagnant operating revenues, deterioration in the financial risk profile led by the group's increased reliance on short-term debt to fund its working capital operations, and thin profitability margins. The group has registered a revenue of Rs. 1135.47 crore in FY23 against Rs. 1150.40 crore in FY22, and it is further estimated to register revenue of Rs. 1180.77 crore in FY24, exhibiting stagnation in operating revenues. Further, the financial risk profile of the group has deteriorated in FY23 owing to the thin operating profit margins, withdrawals from net worth, and the group's increased dependency on short-term debt. The gearing levels moderated to 2.38 percent as of March 31, 2023, from 1.92 percent on March 31, 2022. Consequently, the debt-to-EBITDA ratio, also recorded a deterioration to 6.18 times as of March 31, 2023 against 5.11 times in as of March 31, 2022. The rating also draws comfort from improving scale of operations of NAQ Foods India Private Limited. The revenue for NAQ Foods India Private Limited has improved to Rs.54.03Cr in FY23 from Rs.34 in FY22 and further estimated to improve to Rs.103.37Cr in FY24. Going forward, the group's ability to improve 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

Unsupported Rating

Not Applicable

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 stable revenue visibility in medium term.

Stable operating performance:

The group registered revenue of Rs. 1135.77 crore in FY23 against Rs. 1150.40 crore in FY22. Growth in revenue for Naga Hanuman Solvent Oils and NAQ foods is partially offset by a decline in revenue for Naga Hanuman Agro Oils and Nukala Rama Krishna during FY23. However, in FY24, the revenue of the group has marginally improved to Rs. 1180 crore as per YTD for FY24, primarily supported by improved production volume. Low realizations during the year have led to a decline in revenue for Naga Hanuman Agro Oils, which is estimated to be at Rs. 422 crore for FY24 against Rs. 494.25 crore. However, on the consolidated level, the

revenue is estimated to improve marginally due to improvements in quantity sold and stable realizations in Naga Hanuman Solvent Oils and NAQ Foods. The operating margins stood stable at 3.04 percent in FY23 against 2.86 percent in FY22 and are estimated to remain stable in the range of 3.10–3.50 percent for FY24. From FY25 onwards, the EBITDA margins are expected to improve further, as the group has made progress towards the installation of new boilers and capacity expansion, which improves productivity and eliminates bottlenecks in the production process.

Efficient working capital operations:

Naga Hanuman Group's working capital cycle is efficiently managed, which is evident from the Gross Current Asset (GCA) days of 92 days as of March 31, 2023. GCA days deteriorated marginally in FY23 because of elongation in the debtor days to 47 days as of March 2023 against 30 days in the previous fiscal. Creditor days stood at 22 days as of March 31, 2023 against 17 days as of March 31, 2022. The inventory days of the group stood at 32 days as of March 31, 2023 against 19 days as of March 2022. The reliance on working capital limits is moderate which remained utilized at an average of 69 percent during the past 6 months ending March 2024. Acuite believes that the working capital operations will continue to remain in the similar range over the medium term.

Weaknesses

Moderate financial risk profile:

The financial risk profile of the group is moderate, marked by moderate net worth, average gearing levels, and debt protection metrics. The group's net worth improved to Rs. 98.48 crore as of March 31, 2023, from Rs. 95.8 crore as of March 31, 2022, despite the withdrawal of capital worth Rs. 6.81 crore and the deduction of tax amount worth Rs. 2.70 crore (Partnership Firm) owing to the healthy profits registered by the group in FY23. The group's capital structure has marginally deteriorated, with gearing and total outside liabilities to total net worth (TOL/TNW) of 2.38 times and 3.22 times, respectively, as of March 31, 2023, as against 1.92 times and 2.50 times as of March 31, 2022. The coverage indicators were healthy, with a DSCR of 2.17 times as of March 31st, 2023, as opposed to 3.27 times as of March 31st, 2022. Interest coverage stood at 2.49 times as of March 31st, 2023, as opposed to 3.63 times as of March 31st, 2022. Debt to EBITDA further deteriorated to 6.18 times during FY23 from 5.11 times during the previous year. Acuite believes that the financial risk profile of the group will remain moderate over the medium term due to its higher reliance on short-term debt for working capital management.

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 in the financial risk profile of the group owing to increased working capital borrowings.

Liquidity : Adequate

Naga Hanuman Group's liquidity position is adequate, which is evident from sufficient net cash accruals (NCA) against the debt repayment obligations. The group reported net cash accruals (NCA's) of Rs. 20.39 crore on March 31, 2023, against Rs. 1.14 crore of debt repayment obligations. The cash accruals are estimated to remain in the range of Rs. 22–27 crore in the medium term, against the expected debt repayment range of Rs. 4–6 crore for the same period.

The group has moderate unencumbered cash and bank balances of Rs. 3.05 crore as of March 31, 2023, which provides additional comfort towards liquidity. The reliance on fund-based working capital limits stood moderate in the range of ~69 percent during the past 6 months ending March 2024. Besides, the current ratio of the group stood average at 1.18 times as of March 31, 2023. Acuite believes that the liquidity position of the group will remain adequate over the medium term on the back expected sufficient cash accruals generation.

Outlook: Stable

Acuite believes that Naga Hanuman 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 significant 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.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 23 (Actual)	FY 22 (Actual)
Operating Income	Rs. Cr.	1135.77	1150.40
PAT	Rs. Cr.	12.11	15.20
PAT Margin	(%)	1.07	1.32
Total Debt/Tangible Net Worth	Times	2.38	1.92
PBDIT/Interest	Times	2.49	3.63

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

Not Applicable

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
16 Jan 2023	Cash Credit	Long Term	2.00	ACUITE BBB- Negative (Reaffirmed)
	PC/PCFC	Long Term	15.00	ACUITE BBB- Negative (Reaffirmed)
18 Oct 2021	PC/PCFC	Long Term	15.00	ACUITE BBB- Stable (Assigned)
	Cash Credit	Long Term	2.00	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 avl. / Not appl.	Cash Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	2.00	ACUITE BBB- Stable Reaffirmed Negative to Stable
Yes Bank Ltd	Not avl. / Not appl.	PC/PCFC	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	15.00	ACUITE BBB- Stable Reaffirmed Negative to Stable

*Annexure 2 - List of Entities (applicable for Consolidation or Parent / Group / Govt. Support)

1. Nukala Ramakrishna (Naga Hanuman Fish Packers)
2. Naga Hanuman Agro Oils Private Limited
3. Naga Hanuman Solvent Oils Private Limited.
4. NAQ Foods India Private Limited.

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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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