Press Release
RUSTAM FOODS PRIVATE LIMITED
June 08, 2023
Rating Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	211.88	ACUITE BBB | Stable | Reaffirmed	-
Bank Loan Ratings	24.12	-	ACUITE A3+ | Reaffirmed
Total Outstanding Quantum (Rs. Cr)	236.00	-	-

Rating Rationale
ACUITE has reaffirmed its long-term rating of **'Acuité BBB' (read as Acuité triple B)** and its short-term rating of **'Acuité A3+' (read as Acuité A three plus)** on the Rs.236.00 Cr bank facilities of Rustam Foods Private Limited (RFPL). The outlook is **'Stable'.**

Rationale for the rating
The rating takes into account the long track record of operations of the company of more than 15 years along with extensive experience of the promoters. Further, the rating also factors in the strategic location of the plant and above average financial risk profile of the company. The rating also draws comfort from the efficient working capital operations which is also reflected through the moderate reliance on short term bank finance with an average utilization of 85% for last 6 months ended February 2023. These strengths are however, partly offset by thin profitability margins, inherent risk associated with the meat industry being a highly competitive and fragmented industry. Acuite notes that the company hedges against the foreign exchange risk by entering into forward contracts.

About the Company
Incorporated in 2006, Rustam Foods Private Limited (RFPL) is an Unnao, Uttar Pradesh based company, promoted by Mr. Mohammad Saleem and Mrs. Shahin Mohammed Salim Qureshi. The company is a DGFT certified three-star export house and is engaged in processing of frozen boneless buffalo meat. The company has an APEDA registered Modern Integrated Abattoir cum Meat Processing Plant in Uttar Pradesh.

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

Key Rating Drivers

Strengths

Long track record of operations and experienced management
RFPL has a long operational track record of more than 15 years in the meat processing industry. Further, the promoter, Mr. Mohammad Saleem has extensive experience spanning over three decades in the meat industry. The company is a DGFT-certified three-star export house and is engaged in the processing of frozen boneless buffalo meat.

Acuite believes that the company's long track record of operations and the promoter's extensive understanding and expertise will benefit the company going forward, resulting in steady growth in the scale of operations.

Above average financial risk profile

The company's financial risk profile is above average, marked by a healthy net worth base, moderate gearing, and moderate debt protection metrics. The tangible net worth of the company increased to Rs. 126.92 crore as of March 31, 2022, from Rs.108.95 Cr as of March 31, 2021, due to accretion of profits to reserves. The company follows a conservative financial policy, as reflected by its peak gearing of 1.75 times in the last 3 years. The gearing of the company stood at moderate levels at 1.55 times as of March 31, 2022, as against 1.75 times as of March 31, 2021, and continued to remain at moderate levels at ~1.27 times as on March 31, 2023 (Est). The Total Outside Liabilities/Tangible Net Worth (TOL/TNW) stood at 1.83 times as of March 31, 2022, as against 2.16 times as of March 31, 2021, and is expected to decline further. Moreover, the debt protection metrics are moderate, with the Interest Coverage Ratio (ICR) at 4.33 times as of March 31, 2022, and Debt Service Coverage Ratio at 1.86 times as of March 31, 2022. The metrics would continue to remain at moderate levels in spite of a slight moderation in the earnings profile in FY2023. The Net Cash Accruals/Total Debt (NCA/TD) stood at 0.12 times as on March 31, 2022, and is expected to remain almost at the same levels in the near term.

Acuité believes that going forward, the financial risk profile of the company may continue to remain above average, backed by steady accruals and no major debt-funded capex plans.

Efficient working capital management

The efficient working capital management of the company is marked by an increased but comfortable Gross Current Assets (GCA) of 86 days in FY2022 as against 79 days in FY2021. The increased GCA days in FY2022 are mainly on account of increased advances to suppliers during the year. However, the inventory days improved and stood comfortably at 46 days in FY2022 as against 55 days in FY2021. Further, the debtor's period stood comfortably at 20 days in FY2022 as against 21 days in FY2021. Acuité believes that the working capital management of the company will remain almost at the same level over the medium term, as evidenced by the efficient collection mechanism and low inventory levels.

However, Acuite notes that the GCA days have increased to 110 days in FY2023 (estimated) on account of the increased inventory holding level. The inventory days increased to 78 days in FY2023 (Est) from 46 days in FY2022 on account of stock pile-up due to fewer exports being made to Egypt and other stock-in-transit. Acuite believes that it is a temporary phenomenon, and the working capital operations of the company are likely to remain at comfortable levels in the near to medium term.

Weaknesses

Dip in operating income in FY2023 and thin profitability margins

The operating income of the company moderated to Rs. 1319.44 crore in FY2022 as against Rs. 1361.96 crore in FY2021. The revenue further declined to Rs. 905.81 crore in 11MFY23 (Prov) due to decreased exports to Egypt in Q2-Q4 of FY2023 on account of stumbling foreign currency, while the Q1FY23 export to Egypt was satisfactory. The Egyptian pound has lost nearly 50 percent of its value against the US dollar over the past year. To safeguard against the currency devaluation risk in Egypt, the company subdued its exports to this country in FY2023. However, now the company has tied up with the Egyptian Government Authorised Agency for 100 percent advance payment for the exports being made, thereby mitigating the currency risk to some extent. Further, the company is also in the process of diversifying in Malaysia, thereby providing satisfactory revenue visibility in the near to medium term. Acuite believes that going forward, the company will be able to sustain its business risk profile backed by geographical diversification and the resumption of trade in Egypt.

The company's operating profit margin is typically low owing to limited value addition in the buffalo meat processing business. The EBITDA margin increased to 3.34 percent in 11MFY23 (Prov) owing to a moderation in freight charges in 2HFY23. The increased freight cost did not affect the margin much in FY2022 as it got nullified by the simultaneous decline in the material cost, resulting in EBITDA at 2.89 percent in FY2022 as against 2,72 percent in FY2021. Acuite expects the operating margin to be around 3.3–3.5 percent in the near to medium term, considering the reduction in freight costs and improved availability of containers. The PAT margin moderated to 1.36 percent in FY 2022 as against 1.44 percent in FY 2021 on account of increased finance costs. The PAT margin is expected to be 1.45 percent in FY 2023 (estimated).

Highly competitive nature of the industry
The Indian meat processing industry is highly competitive, with the presence of a large number of players leading to a highly competitive industry and thus, putting pressure on the profitability margins of the companies. There are a number of abattoirs and meat processing plants registered with the Agricultural and Processed Food Products Export Development Authority (APEDA). Further, most of the meat processing and export-oriented units in the country are situated in U.P., Punjab, Maharashtra, and Andhra Pradesh.

Inherent business risks and regulatory risks
The business is exposed to significant challenges, such as disease outbreaks in the cattle population. Also, the industry is socially and politically sensitive in the country. Factors such as these can impact the availability and processing of buffalo meat. Moreover, as the company earns a major share of its revenue from the export market, its profitability remains exposed to the risk of any adverse regulatory development in the importing country.

Rating Sensitivities

- Sustenance of the profitability margins while scaling up of operations.
- Elongation of working capital cycle.

Material covenants

None.

Liquidity Position

Adequate
The company's liquidity position is adequate marked by net cash accruals of Rs.22.95 Cr in FY2022 as against long term debt repayment of only Rs.8.26 Cr over the same period. The current ratio stood comfortable at 1.44 times as on 31 st March, 2022 as compared to 1.40 times as on 31 st March, 2021. Further, the fund based limits remained moderately utilized at ~85 per cent for six months ended February 2023. Moreover, the cash and bank balances of the company stood at Rs.20.45 Cr in FY2022 as compared to Rs.4.00 Cr in FY2021. Further the working capital management of the company is efficient marked by Gross Current Assets (GCA) of 86 days in FY2022 as compared to 79 days in FY2021.
Acuité believes that going forward the company is likely to maintain adequate liquidity position supported by steady accruals.

Outlook: Stable

Acuité believes that RFPL will continue to benefit over the medium term from its experienced management and established relationship with the clients. The outlook may be revised to 'Positive' in case the company registers a substantial increase in its scale of operations and profit margins, while effectively managing its working capital cycle. Conversely, the outlook may be revised to 'Negative' in case the company fails to achieve the projected scalability in revenues or in case of deterioration in the company's financial risk profile on account of higher-than expected increase in debt-funded working capital requirements or further elongation of working capital cycle.

Other Factors affecting Rating

None.

Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	1319.44	1360.96
PAT	Rs. Cr.	17.97	19.53
PAT Margin	(%)	1.36	1.44
Total Debt/Tangible Net Worth	Times	1.55	1.75
PBDIT/Interest	Times	4.33	6.14

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

None.

Any other information

None.

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

In order to inform the investors about complexity of instruments, Acuité 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
31 May 2023	Term Loan	Long Term	16.86	ACUITE BBB | Stable (Assigned)
	Packing Credit	Short Term	50.00	ACUITE A3+ (Assigned)
	Proposed Working Capital Demand Loan	Long Term	11.14	ACUITE BBB | Stable (Assigned)
	Packing Credit	Short Term	18.50	ACUITE A3+ (Assigned)
	Term Loan	Long Term	5.00	ACUITE BBB | Stable (Assigned)
	Proposed Bank Facility	Short Term	18.00	ACUITE A3+ (Assigned)
	Packing Credit	Short Term	116.50	ACUITE A3+ (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
HDFC Bank Ltd	Not Applicable	Packing Credit	Not Applicable	Not Applicable	Not Applicable	Simple	18.50	ACUITE BBB | Stable | Reaffirmed
Yes Bank Ltd	Not Applicable	Packing Credit	Not Applicable	Not Applicable	Not Applicable	Simple	50.00	ACUITE BBB | Stable | Reaffirmed
State Bank of India	Not Applicable	Packing Credit	Not Applicable	Not Applicable	Not Applicable	Simple	116.50	ACUITE BBB | Stable | Reaffirmed
Not Applicable	Not Applicable	Proposed Short Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Simple	6.12	ACUITE A3+ | Reaffirmed
Yes Bank Ltd	Not Applicable	Short-term Loan	Not Applicable	Not Applicable	Not Applicable	Simple	5.00	ACUITE A3+ | Reaffirmed
State Bank of India	Not Applicable	Short-term Loan	Not Applicable	Not Applicable	Not Applicable	Simple	8.00	ACUITE A3+ | Reaffirmed
HDFC Bank Ltd	Not Applicable	Short-term Loan	Not Applicable	Not Applicable	Not Applicable	Simple	5.00	ACUITE A3+ | Reaffirmed
State Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	16.88	ACUITE BBB | Stable | Reaffirmed
Yes Bank Ltd	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	5.00	ACUITE BBB | Stable | Reaffirmed
State Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	5.00	ACUITE BBB | Stable | Reaffirmed

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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.