



Press Release
NARAYAN AGRO FOODS LIMITED
December 01, 2023
Rating Assigned

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	26.69	ACUITE BB Stable Assigned	-
Total Outstanding Quantum (Rs. Cr)	26.69	-	-

Rating Rationale

Acuite has assigned its long term rating of '**ACUITE BB**'(read as **ACUITE double B**) on the RS 26.69 Cr bank facilities of Narayan Agro Foods Limited. The outlook is '**Stable**'.

Rationale for Rating

The assigned rating reflects the extensive experience of management along with established track record of operations of more than four decades. The rating also factors in the growth in the scale of operations on y-o-y basis since past three years. However, the above mentioned strengths are partly off-set by the intensive working capital operations of the company and a moderate gearing of 2.67 times as on 31st March 2023. Also, the reliance of the company on the external debt is high reflected through an average utilization of approximately 92.84% in last six months ending September 2023. Further highly competitive market and susceptibility to change in government regulations and milk prices are constraining factors.

About the Company

Incorporated in 1976, Narayan Agro Foods Limited is based in Punjab. It is engaged in manufacturing milk powder (Skimmed Milk Powder, Whole Milk Powder and Dairy Whiteners), Ghee and other milk products like dahi, chhachh, paneer etc. The directors of Narayan Agro Foods Limited are Mr. Neeru Talwar, Mr. Subash Goyal, Mr. Vishal Goyal and Mr. Rabindra Prasad Singh.

Unsupported Rating

Not Applicable

Analytical Approach

Acuite has taken the standalone view on the business and financial risk profile of NAFL to arrive at this rating.

Key Rating Drivers

Strengths

Experience management and established track record of operations

NAFL was incorporated in 1976 and engaged in manufacturing milk powder (Skimmed Milk Powder, Whole Milk Powder and Dairy Whiteners), Ghee and other milk products like dahi, chhachh, paneer etc. Currently the company is managed by Mr. Neeru Talwar, Mr. Subash Goyal, Mr. Vishal Goyal and Mr. Rabindra Prasad Singh who has an experience in the same industry and has an established track record of operations of more than four decades. Acuite believes that the long operational track record of NAFL and promoters' extensive

understanding and expertise will benefit the company going forward, resulting in steady growth in the scale of operations.

Growth in the scale of operations

The company has witnessed an increase in the revenue and recorded Rs.139.88 Crore in FY23 against Rs.105.95 Crore in FY22 and Rs.76.66 Crore in FY21. The increase in revenue is majorly on an account of increase in the prices of the commodities. Also, the EBITDA margins of the company stood stable at 3.46% in FY23 against 3.51% in FY22. The PAT margins of the company stood at 0.74% in FY23 against 0.63% in FY22. The company have achieved the revenue of Rs.56.39 Crore till October 2023. Acuité believes that the company is likely to maintain healthy profitability margins and growth in revenue going forward.

Weaknesses

Working Capital Intensive Operations

The working capital operations of the company are intensive marked by high GCA days which stood at 143 days as on 31st March 2023 against 148 days as on 31st March 2022. The debtor and Inventory days of the company stood at 87 days and 45 days respectively as on 31st March 2023 against 93 days and 53 days respectively as on 31st March 2022. Average payment terms with customers??On the other hand, the creditor days of the company stood at 41 days as on 31st March 2023 against 45 days as on 31st March 2022. Acuite believes that working capital operations of the company may continue to remain intensive considering the nature of business.

Moderate Financial Risk Profile

The company's moderate financial risk profile is reflected by modest net worth base, moderate gearing and average debt protection measures. The tangible net worth of the company increased to Rs.13.53 Cr as on March 31, 2023 from Rs.12.49 Cr as on March 31, 2022 due to accretion of profits. Gearing of the company improved and stood at 2.67 times as on March 31, 2023 as against 2.27 times in the previous year. The Total Outside Liabilities/Tangible Net Worth (TOL/TNW) stood at 4.01 times as on March 31, 2023 as against 3.37 times as on March 31, 2022. Moreover, the debt protection metrics is marked by Interest Coverage Ratio (ICR) at 2.30 times as on March 31, 2023 and Debt Service Coverage Ratio at 1.24 times as on March 31, 2022. The Net Cash Accruals/Total Debt (NCA/TD) stood at 0.07 times as on March 31, 2023. Acuité believes that going forward the financial risk profile of the company will remain a key sensitive factor.

Highly competitive industry and Susceptibility to changes in government regulations and environmental conditions and milk prices

The dairy industry is highly fragmented with large number of unorganised players. The company also faces competition from some of the big players such as Amul, Parag, Karnataka Milk Federation, among others in the organised segment. Also, ensuring competitive remuneration to the farmers for procurement of milk would be a key sensitivity for maintaining a steady supply chain.

Also, NAFL, like all dairy players, is susceptible to government regulations such as ban on skimmed milk powder (SMP) exports and removal of export incentives. Furthermore, it is susceptible to failure in milk production because of external factors such as cattle diseases. At the same time, it is also susceptible to volatile milk prices.

Rating Sensitivities

- Significant improvement in scale of operations while maintaining its profitability margins.
- Deterioration in the working capital cycle leading to stress on the debt protection metrics or the liquidity position of the company.

All Covenants

None.

Liquidity Position

Adequate

The liquidity position of the company is adequate. The company has generated net cash accruals of Rs.2.36 Crore against the debt repayment obligations of Rs.1.50 Crore in the same

period. The company is expected to generate sufficient net cash accruals against the debt repayment obligations in near to medium term. Further, the current ratio of the company stood at 1.13 times as on 31st March 2023 against 1.18 times as on 31st March 2022. The cash and bank balance of the company stood at Rs.1.16 Crore as on 31st March 2023 against Rs.0.14 Crore. However, the average bank limit utilization stood high at 92.84% in last six months ending September 2023. Acuite believes that NAFL may continue to maintain its liquidity position backed by steady cash accruals.

Outlook: Stable

Acuité believes that NAFL will maintain a 'Stable' outlook in the near to medium term on account of its established presence in dairy industry, experience of the promoters in the business and supported by strong procurement capability and distribution network. The outlook may be revised to 'Positive' if the company registers higher-than-expected growth in its scale of operations, while also improving its operating profitability and coverage indicators. Conversely, the outlook may be revised to 'Negative' if the company fails to achieve the scalability amidst intensifying competition in the area of operation, decline in revenues or profitability margins or if the financial risk profile deteriorates due to higher-than-expected increase in debt-funded capex or working capital requirements resulting in deterioration in the overall capital structure.

Other Factors affecting Rating

Not applicable.

Key Financials

Particulars	Unit	FY 23 (Actual)	FY 22 (Actual)
Operating Income	Rs. Cr.	139.88	105.95
PAT	Rs. Cr.	1.04	0.67
PAT Margin	(%)	0.74	0.63
Total Debt/Tangible Net Worth	Times	2.67	2.27
PBDIT/Interest	Times	2.30	2.40

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>
- Trading Entity: <https://www.acuite.in/view-rating-criteria-61.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, 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 :

Not applicable.

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Punjab National Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	22.00	ACUITE BB Stable Assigned
Punjab National Bank	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	2.82	ACUITE BB Stable Assigned
Punjab National Bank	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	1.87	ACUITE BB Stable Assigned

Contacts

Analytical	Rating Desk
Mohit Jain Senior Vice President-Rating Operations Tel: 022-49294017 mohit.jain@acuite.in Depanshi Mittal Analyst-Rating Operations Tel: 022-49294065 depanshi.mittal@acuite.in	Varsha Bist Senior Manager-Rating Operations Tel: 022-49294011 rating.desk@acuite.in

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.

Disclaimer: An Acuité rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. Ratings assigned by Acuité are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, Acuité, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. Acuité is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind, arising from the use of its ratings. Ratings assigned by Acuité are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website (www.acuite.in) for the latest information on any instrument rated by Acuité. Please visit <https://www.acuite.in/faqs.htm> to refer FAQs on Credit Rating.