April 27, 2023

Northern Solvents Private Limited: [ICRA]BB(Stable); Rating assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long term – Fund based – Term Loan	9.00	[ICRA]BB (Stable); assigned
Total	**9.00**	

**Instrument details are provided in Annexure-I*

Rationale

The assigned rating takes into consideration the extensive experience of Northern Solvents Private Limited's (NSPL) promoters, who are part of the Neccon Group, having a long track record in diversified business segments including the food processing industry. Further, the company has successfully commissioned the plant without any major cost overrun and with timely receipt of subsidy from the Government of India (GoI). The company derives benefits as its plant is located in Rajasthan, a major producer of spices, which would ensure stable raw material availability at competitive prices. ICRA believes that the company's business growth is likely to be supported by stable demand for packaged food and growth in the hotels, restaurants and catering (HoReCa) segment, which are major users of spices, oleoresins and oils.

The rating is, however, constrained by the company's business risk as the operations are in nascent stages and its ability to build up revenue and add regular customers is yet to be witnessed. Moreover, the size of the company's revenue and net worth are likely to remain small in the medium term, which limits its ability to absorb any unanticipated risk. Further, the company is exposed to competition in a highly fragmented industry, which would have an impact on its profitability. ICRA believes that until the company achieves the estimated sales volumes, its dependence on its promoters for timely financial support to meet any shortfall will remain high.

The Stable outlook on the [ICRA]BB rating reflects ICRA's opinion that the company will be able to scale up its revenue base while maintaining stable profitability, supported by an extensive experience and long track record of its promoters in various businesses.

Key rating drivers and their description

Credit strengths

Extensive experience of the promoters and successful commissioning of the plant – The company has been established by Mr. Murlidhar Khetan and his family, which has an extensive business experience of more than six decades. Mr. Khetan leads the Neccon Group, which has diversified businesses including food processing, real estate, education, power, construction etc. The company has been able to successfully commission its plant, backed by an extensive experience of its promoters, which also helped in securing funding for the project, including subsidy from the Ministry of Food Processing Industries (MoFPI), GoI. Initially the project witnessed some delays on account of the pandemic-induced challenges, however, the company was able to reschedule the timelines and the promoters infused additional funds to cover the incremental costs. The plant has been officially commissioned in March 2023.

Location-specific advantages – NSPL has set up its solvent extraction plant in Greentech Mega Food Park, which is located in Ajmer district of Rajasthan. Apart from being well connected to important rail and road routes, the plant enjoys benefits for being located in Rajasthan, a major producer of many spices including chili, coriander, fennel, fenugreek, cumin, garlic, and dill seeds. The company benefits from easy availability and supply of raw materials at competitive rates owing to its proximity to spice producing belt and associated wholesale markets.

Stable demand outlook for the packaged food products and HoReCa segment – With the changing pattern of the Indian food habits, the demand for packaged food products is increasing. Additionally, expanding cities are also witnessing significant growth in the HoReCa segment. Growth in both the segments is leading to a strong demand from processed food and fragrance industries that now mostly prefer natural colouring and flavouring agents to artificial ones considering the health-conscious customers. Usage of spice oleoresin and oils is more efficient for the food processing companies, which is a credit positive for producers such as NSPL. Additionally, spices oils are also used in many medicines, which could become another potential market for the company in the future.

Credit challenges

Business risks owing to the nascent stage of operations – The company has just commissioned its plant, which will take some time to achieve stabilisation. ICRA notes that the company would be catering to only B2B sales, which limits its exposure to risks associated with the retail market to an extent. However, the company has just started promoting its products with the prospective customers and is yet to receive any large order, which reduces the business risks associated with retail markets to an extent. The company is significantly exposed to business risks as its ability to build up revenue and customer base is yet to be seen.

Small scale of operations and low net worth – Given the size of the company's processing capacity, its turnover is likely to remain small with up to Rs. 50.0 crore in the medium term. Moreover, the net worth of the company would remain low in the medium term, considering the initial stage of its operations and limited accruals. Consequently, the company's ability to absorb any unanticipated risks would be limited. Nevertheless, ICRA believes that the promoters' timely support would remain critical for the company in the future.

Highly fragmented industry with intense competition – The spice oil and oleoresin industry are highly fragmented as there is a large variety of products that can be manufactured with different processes and varied cost-effective methods. The products are available both in branded as well as unorganised markets. Consequently, the market witnesses an intense competition in terms of products as well as prices, which could adversely impact the company's profitability, especially in the initial stage of operations.

Liquidity position: Stretched

The company's liquidity position is likely to remain stretched in the near term on account of limited accruals in the initial stage of operations. Further, the company is likely to have high working capital intensity initially, for which it does not have any working capital limit till date. While the company does not have any major capex plan in the near term, it has term loan repayments of Rs. 1.64 crore each in FY2024, FY2025, and FY2026. ICRA believes that the company's liquidity would be supported by its promoters in the form of unsecured loans in case of any cash flow mismatch.

Rating sensitivities

Positive factors – The rating could be upgraded if the company is able to build up its revenue base while maintaining profitability along with an improvement in its liquidity on a sustained basis.

Negative factors – The rating could be downgraded if the company is unable to scale up its revenue along with profitability. Specific credit metrics that could result in a rating downgrade include DSCR of less than 1.2 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Not applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the standalone financials of the rated entity

About the company

Northern Solvents Private Limited (NSPL) was incorporated in April 2019, which has commissioned its processing plant for extraction of spice oleoresin and oils from raw spices and herbs through distillation and solvent extraction methods. The recently commissioned plant is located in Greentech Mega Food Park (Roopangarh village, Kishangarh tehsil in Ajmer district, Rajasthan). The processing plant of the company has one distillation and one solvent extraction facility, each having a capacity of 6 MT per day.

Key financial indicators

Northern Solvents Private Limited	FY2022	FY2023*
Operating income	0.0	0.0
PAT	0.0	0.0
OPBDITA/OI	-	-
PAT/OI	-	-
Total outside liabilities/Tangible net worth (times)	1.3	2.3
Total Debt/OPBDITA (times)	-	-
Interest coverage (times)	-	-

*PAT: Profit after tax; OPBDITA: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs. Crore; *Provisional data*

Status of non-cooperation with previous CRA:

CRA	Status	Date of Release
CARE	CARE B+ (Stable); ISSUER NOT COOPERATING	December 28, 2022

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2024)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as of Mar 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					Apr 27, 2023	-	-	-
1	**Fund based – Term loan**	Long term	9.0	8.59	**[ICRA]BB (Stable)**	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term – Fund-based – Term Loan	Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA’s website: [Click Here]

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Term Loan**	FY2021	10.35%	FY2028	9.0	[ICRA]BB(Stable)

Source: Company

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis – Not applicable

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About ICRA Limited:

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