ICRA

September 14, 2020

Aachi Masala Foods Private Limited: Ratings reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based - Term Loans	52.95	47.95	[ICRA]BBB+ (Stable); Reaffirmed
Fund-based - Working Capital Facilities	155.00	145.00	[ICRA]BBB+ (Stable); Reaffirmed
Unallocated limits	20.00	55.00	[ICRA]BBB+ (Stable); Reaffirmed
Total	**227.95**	**247.95**	

**Instrument details are provided in Annexure-1*

Rationale

While arriving at the ratings, ICRA has considered the consolidated financial profile of Aachi Masala Foods Private Limited (AMFPL), Nazareth Foods Private Limited (NFPL), Aachi Spices and Foods Private Limited (ASFPL), Benny Product Private Limited (BPPL) and Aachi Special Foods Private Limited (Aachi Special), collectively referred to as the Aachi Group.

The ratings continue to factor the extensive experience of promoters in the consumer goods business spanning over two decades and the strong presence of the Aachi brand in its key markets. The Group's integrated structure covering the entire value chain from raw material procurement to end sales, its well-entrenched distribution network and established market position (primarily in South India), and the expanding footprint across non-South markets aided by its focussed marketing campaigns (wherein the revenues grew by ~19% in FY2020) continue to support the ratings. The Group holds a dominant market share in the Tamil Nadu region and has captured the share of business from smaller, unbranded players in the recent months amid the Covid-19 pandemic, which had disrupted the operations of the latter. This, coupled with increasing demand from consumers for food products amid the pandemic, had resulted in a sharp 58% YoY growth in revenues in Q1 FY2021 and is further expected to drive the company's top line in FY2021.

The ratings, however, remain constrained by the inherent competitive intensity in the industry, which limits the pricing flexibility and profitability, high geographical-concentration risks with ~77% of its revenues derived from a single market (Tamil Nadu) in FY2020 and average credit profile. The Group's financial profile is characterised by moderate profit margins (both at operating and net level) over the past few years due to intense pricing pressure, higher selling costs and interest expenses, given its high dependence on working capital loans and availing of long-term debt towards project capex and brand development expenditure done in the last four to five years. The earnings remain vulnerable to the fluctuations in raw material prices and scale of operations. The Group's gearing and Total Debt/OPBITDA was ~1.0x and 3.5x, respectively as on March 31, 2020, while the interest coverage ratio stood at 2.2 times in FY2020. The business remains working capital-intensive and this coupled with the moderate profit margins affects the liquidity profile. ICRA expects the debt levels to increase in line with the anticipated rise in revenues apart from the debt availed for godown construction and loans planned to be availed for brand development expenses in FY2021. Consequently, the debt protection metrics are likely to remain moderately high in the near term. The Group's ability to improve the margins and working capital cycle will be critical for improving the debt coverage metrics.

The Stable outlook on the long-term rating reflects ICRA opinion that the Aachi Group will continue to benefit from the extensive experience of the promoters and the strong brand position in its key operational markets.

Key rating drivers and their description

Credit strengths

Extensive experience of promoter and strong brand equity: The Aachi Group has established itself as a dominant player involved in processing and marketing powdered spices, instant ready mixes, pickles, spices, whole wheat flour, oil, clarified butter, etc., mainly in the South Indian market. Aided by the extensive experience of promoter, Mr. Padmasingh Isaac, stable demand and the strong brand support, the Aachi Group's revenues grew at a compounded annual growth rate (CAGR) of 8.9% over the last four years ending as of FY2020). Going forward, the established brand image and expanding footprint across India is likely to support the revenue growth.

Integrated Group structure and well-entrenched distribution network: The Group's operations are integrated, supporting its business profile and stability to earnings. Aachi Special is the raw material procurement arm of the Group. It procures raw materials like chillies, coriander, pepper, turmeric, cardamom, etc. through its traders at various centres and preserves the same in cold storage for onward supply to AMFPL, NFPL and ASFPL. AMFPL markets the products manufactured by the various Group concerns, including NFPL, ASFPL and BPPL. It also has a manufacturing division to meet the rising demand for the product it sells. The integrated nature of operations across the value chain supported by a well-entrenched distribution network aids in the Group's efficiency improvements and sales growth. AMFPL has a strong distribution network of 450 supreme stockists, 600 distributors, 5,000 agents and nearly 10 lakh retailers. The Group's diversified and affordable product range and wide distribution network have supported the stable sales volume and widespread product acceptance across geographies.

Expanding market presence with focussed marketing campaigns to aid revenue growth: At present, AMFPL generates ~77% of its revenues from the Tamil Nadu region (78% in FY2019). However, the Group has been expanding its pan-India presence with greater focus in the non-South markets through aggressive marketing and advertisement campaigns, by virtue of which the Group posted ~19% YoY increase in revenues from non-South markets in FY2020. In its bid to further increase its penetration in other southern states (outside Tamil Nadu) and non-South markets, the company plans to incur brand development expense of Rs. 35.0 crore in FY2021. The increasing brand reach in the new markets, coupled with focused marketing campaigns via advertisements on TV and newspapers, are aimed at improving the Group's revenues going forward.

Improving demand for food products amid pandemic to aid revenue growth: The company has been able to garner market share from smaller, unbranded players, whose manufacturing and inter-city movement had been impacted by the pandemic. This coupled with increased stocking of the essential commodities such as food products by the people has led to a robust ~58% YoY growth in revenues to Rs. 436.5 crore and is expected to support the revenue growth in the near to medium term.

Credit challenges

Financial profile characterised by moderate profit margins and debt indicators: The Group's operating margins are moderate, affected by stiff competition from organised and unorganised players owing to limited entry barriers, and rising advertisement and selling expenditure. Despite the healthy ~10% growth in revenues in FY2020, the operating margins contracted by ~70 bps to 8.1% in FY2020 on account of high advertisement and freight expenses during the year. Net margins were also affected by the higher interest costs, given the working capital-intensive nature of business and rise in term loans availed for the capex incurred towards cold storage, brand development expenditure and land for godown construction. While the margins will remain exposed to the vulnerability of pricing pressures from peers and volatility in raw material prices, the same shall be buffered by the savings on rental costs owing to the commencement of operations of cold storage project from March 2019 and anticipated savings on rental costs post commencement of the godown.

The Group's capitalisation and coverage indicators remained moderate as on March 31, 2020 with gearing and Total Debt/ OPBITDA of 1.0x and 3.5x, respectively as on March 31, 2020 vis-à-vis 1.1x and 3.6x, respectively as on March 31, 2019. The interest coverage ratio was at 2.2 times in FY2020. ICRA expects the debt levels to increase in line with the anticipated rise in revenues, apart from debt availed for godown construction and loans planned to be availed for brand development expenses in FY2021. Consequently, the debt protection metrics are likely to remain moderately high in the near term. The Group's ability to improve the margins and working capital cycle will be critical for improving the debt coverage metrics.

High geographical-concentration risk: The Group continues to derive the majority of its revenues from the southern states, especially Tamil Nadu (~77% of the revenues in FY2020), because of its wide distribution network and better visibility in the market. However, that said, with focused marketing campaigns in non-South markets, ably aided by launch of masala variants like— garam masala, rajma masala, paneer butter masala, etc.—the geographical diversification is expected to improve over the medium to long term.

Stiff competition and working capital intensity: The Aachi Group's earnings are exposed to high fragmentation and competition in the industry; accordingly, the Group witnesses pricing pressure from both organised and unorganised players. Inherent to the nature of business, the Group's working capital intensity is moderately high as of March 2020; the Group procures raw materials in the bulk to gain price advantage during the stocking season (February to June). Going forward, the Group's ability to improve the working capital cycle and thereby, the liquidity position will be the key monitorables.

Liquidity position: Adequate

At the Group level, liquidity position is **adequate** with fund flow from operations of Rs. 46.4 crore in FY2020 and average working capital utilisation of ~82% of the sanctioned limits for 12 months that ended in March 2020. However, on a standalone basis, AMFPL's average working capital utilisation is high at ~95% of the sanctioned limits for the 12-month period that ended in March 2020. The Group has debt repayments of Rs. 13.9 crore (including loans to be availed) in FY2021 and capex spend is expected in the range of ~Rs. 45–50.0 crore. ICRA expects the company's liquidity profile to remain adequate going forward aided by expectation of stable growth in operating profits. Aachi Group had availed moratorium as a part of Covid-19 regulatory package announced by the RBI for March–May 2020.

Rating sensitivities

Positive triggers: Sustained growth in scale of operations and earnings, improved business diversification and better working capital management. Specific credit metrics that could lead to an upgrade of ratings include interest coverage of more than 4.0 times and Total debt/OPBITDA less than 2.3x on a sustained basis.

Negative triggers: Negative pressure on rating will emanate with sharp deterioration in earnings and/or stretch in working capital cycle impacting liquidity profile. Specific credit metrics that could lead to a downgrade of ratings would include TOL/TNW exceeding 1.75x on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	[Corporate Credit Rating Methodology]()
Parent/Group Support	Not applicable
Consolidation/Standalone	Consolidation; the ratings are based on the consolidated financial profile of Aachi Masala Foods Private Limited (rated [ICRA]BBB+ (Stable)), Nazareth Foods Private Limited (rated [ICRA]BBB+ (Stable)), Aachi Spices and Foods Private Limited (rated [ICRA]BBB+ (CE) (Stable)/ [ICRA]A2 (CE)), Benny Product Private Limited (rated [ICRA]BB (Stable)) and Aachi Special Foods Private Limited (rated [ICRA]BBB- (Stable)/[ICRA]A3); all entities have strong strategic and operational interlinkages among them; the companies have different ownership structures under the family and function as separate legal entities in the similar line of business

About the company

AMFPL is a family-run business established by Mr. Padmasingh Isaac in December 2006. The company initially started as the marketing division of NFPL, which produces masala powders. The company also has a manufacturing facility at Gummidipoondi (Tamil Nadu) with an installed capacity of 140 tonne per day to process chilli powder, coriander powder and mixed spices. AMFPL sells masala products, instant ready mixes, pickles, spices, turmeric powder, whole wheat flour, oil, clarified butter, water bottles, etc. As per the unaudited results for FY2020, the Aachi Group's net profit was Rs. 34.6 crore on an operating income (OI) of Rs. 1,309.7 crore compared with a net profit of Rs. 22.9 crore on an OI of Rs. 1,187.3 crore in the previous year.

Key financial indicators (Group)

Consolidated	FY2019	FY2020 Prov
Operating Income (Rs. crore)	1,187.3	1,309.7
PAT (Rs. crore)	22.9	34.6
OPBDIT/OI (%)	8.9%	8.1%
RoCE (%)	13.1%	13.0%
Total Outside Liabilities/TNW (times)	1.6	1.5
Total Debt/OPBDIT (times)	3.6	3.5
Interest Coverage (times)	2.2	2.2
DSCR (times)	1.5	1.5

Source: Company data;

PAT: Profit after tax, OPBDIT: Operating profit before depreciation, interest and taxes, RoCE: Return on capital employed, TNW: Tangible net worth

Key financial indicators (AMFPL: Standalone)

Standalone	FY2019	FY2020 Prov
Operating Income (Rs. crore)	1,186.7	1,309.0
PAT (Rs. crore)	17.1	26.2
OPBDIT/OI (%)	6.4%	5.3%
RoCE (%)	14.0%	13.3%
Total Outside Liabilities/TNW (times)	1.1	1.1
Total Debt/OPBDIT (times)	2.6	2.9
Interest Coverage (times)	2.8	2.8
DSCR (times)	1.5	1.5

Source: Company data;

PAT: Profit after tax, OPBDIT: Operating profit before depreciation, interest and taxes, RoCE: Return on capital employed, TNW: Tangible net worth

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for the past three years

		Current Rating (FY2021)				Chronology of Rating History for the Past 3 Years		
	Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding as on March 31, 2020 (Rs. crore)	Date & Rating September 14, 2020	Date & Rating in FY2020 August 23, 2019	Date & Rating in FY2019 September 28, 2018	Date & Rating in FY2018 June 28, 2017
1	Term Loans	Long Term	47.95	45.70	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)
2	Cash Credit / Bill Discounting	Long Term	145.00	139.00	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)
3	Unallocated	Long Term	55.00	0.00	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	-	-
4	Non-fund based facilities	Short Term	0.00	-	-	[ICRA]A2; withdrawn	[ICRA]A2	[ICRA]A2

Amount in Rs. crore

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loans	Sep-2012	9.40%-11.50%	FY2025	47.95	[ICRA]BBB+ (Stable)
NA	Cash Credit / Bill Discounting	NA	NA	NA	145.00	[ICRA]BBB+ (Stable)
NA	Unallocated	NA	NA	NA	55.00	[ICRA]BBB+ (Stable)

Source: Aachi Masala Foods Private Limited

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Aachi Masala Foods Private Limited	NA	Full Consolidation
Nazareth Foods Private Limited	NA	Full Consolidation
Aachi Spices and Foods Private Limited	NA	Full Consolidation
Benny Product Private Limited	NA	Full Consolidation
Aachi Special Foods and Private Limited	NA	Full Consolidation

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About ICRA Limited:

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