

April 24, 2024

Chennai Fresh Foods: [ICRA]B+ (Stable); assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long Term - Fund Based - Cash Credit	37.00	[ICRA]B+ (Stable); assigned
Long Term - Fund Based - Term Loan	6.50	[ICRA]B+ (Stable); assigned
Total	43.50	

*Instrument details are provided in Annexure-I

Rationale

The assigned rating considers extensive experience of promoters in the rice processing industry, their established relationships with customers and suppliers and a rise in turnover to Rs.236.1 crore in FY2023 from Rs. 74.2 crore in FY2022 consequent to recent commissioning of a rice processing facility at Perundurai, Erode. The rating also considers location specific advantages as the firm's processing unit is located in a major rice producing belt of Tamil Nadu, providing regular and easy access to the raw materials at lower transportation costs.

The rating, however, remains constrained by the company's modest scale of operations in an intensely competitive industry, limiting its financial flexibility. The rating is further constrained by the firm's moderate financial profile, characterised by low profitability and stretched coverage indicators. The firm's revenues and profitability are exposed to fluctuation in raw material prices, agro-climatic changes, seasonality and crop harvest. The rating also factors in the risks associated with a partnership firm.

The Stable outlook on the long-term rating reflects ICRA's expectation that Chennai Fresh Foods (CFF) will likely sustain its operating metrics and report a moderate revenue growth. Further, the outlook underlines ICRA's expectation that the entity's incremental capex, if any, will be funded in a manner that it is able to durably maintain its debt protection metrics commensurate with the existing rating.

Key rating drivers and their description

Credit strengths

Significant experience of promoters and established customer profile – The promoters and their family members have been in the same line of business for more than a decade. The entity is involved in sorting, polishing, branding and packaging of rice and the promoters have good knowledge of the market. Till mid-FY 2022, the entity was undertaking processing activities on a job work basis, post which CFF had set up its own processing unit at Perundurai, Erode. Long presence in the industry has helped the firm establish strong relationships with its suppliers and customers. The entity has over 80 wholesale customers and over 300 retail customers.

Location-specific advantages of manufacturing unit – The firm's processing unit at Perundurai, Tamil Nadu, a major rice producing state, provides regular and easy access to raw materials at lower cost.

Credit Challenges

Weak financial profile – The firm's profitability remained low with an operating margin of 2.5-3% due to low value addition and intense competition in rice processing business. The firm's financial profile had deteriorated consequent to debt-funded

capex incurred in mid-FY2022. Also, increased working capital requirements owing to rise in scale of operations had been funded through working capital loans availed from bank. This led to a rise in TOL/TNW to 5.2 times in FY2023 from 3.0 times in FY2021. Also, the firm's debt coverage indicators remained stretched with an interest coverage of 1.4 times and Total Debt / OPBDITA of 8.5 times in FY2023.

Inherent risks and highly fragmented industry with low entry barriers – The availability of paddy is dependent on climatic conditions prevailing during the season. Hence, the firm is exposed to the fluctuation in availability and prices of raw materials. The rice processing industry is very competitive with presence of a large number of small-scale organised and unorganised units. Lower value addition and highly commoditised nature of the product result in limited scope for premium pricing.

Risks related to partnership nature of the firm – CFF is exposed to the risks related to a partnership firm, including the capital withdrawal risk. However, no capital withdrawal has been observed in the past three years.

Liquidity – Stretched

CFF's liquidity position is likely to remain stretched on account of expected small cash profit and high working capital requirements in the business. Further, its average working capital utilisation in the past 12 months ending in December 2023 remained almost fully utilised with a limited buffer. Given its weak cash flow from operations, the entity is expected to remain dependent on timely fund infusion from the promoter to meet its working capital and debt servicing requirements. The firm does not have any significant capex plan in the near-to-medium term.

Rating sensitivities

Positive factors – ICRA could upgrade CFF's rating if the firm demonstrates a sustained improvement in its revenues and profitability. A specific credit metric that could lead to a rating upgrade includes the interest coverage improving to more than 2.0 times on a sustained basis.

Negative factors – Pressure on the rating could arise if a decline in accruals or a significant deterioration in the working capital cycle impacts its liquidity position.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Not Applicable
Consolidation/Standalone	The rating is based on the entity's standalone financial profile

About the company

Chennai Fresh Foods was established in 2018 as a partnership firm by Mrs. R. Kavitha and Mrs. Parveen. The firm is involved in sorting, polishing, packaging and branding of rice. The firm's processing unit is located at SIPCOT facility, Perundurai, Erode. The entity sells varieties of rice under different brand names like Sona (regular), Great Emperor (Basmati rice), Mapillai samba jeera rice, Gramiyam IR-20 etc.

Key financial indicators (audited)

Chennai Fresh Foods	FY2022	FY2023
Operating income	74.2	236.1
PAT	0.4	0.5
OPBDIT/OI	3.9%	2.7%
PAT/OI	0.5%	0.2%
Total outside liabilities/Tangible net worth (times)	4.0	5.2
Total debt/OPBDIT (times)	12.0	8.5
Interest coverage (times)	1.3	1.4

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

Status of non-cooperation with previous CRA: Not Applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2025)		Chronology of rating history for the past 3 years			
		Amount rated (Rs. crore)	Amount outstanding as of March 31, 2024 (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022
				April 24, 2024	-	-	-
1 Cash Credit	Long term	37.00	-	[ICRA]B+ (Stable)	-	-	-
2 Term loan	Long term	6.50	5.89	[ICRA]B+ (Stable)	-	--	

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long Term - Fund Based - Cash Credit	Simple
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	Cash Credit	NA	NA	NA	37.00	[ICRA]B+ (Stable)
NA	Term loan	FY2022	NA	FY2029	6.50	[ICRA]B+ (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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