

March 20, 2025

Sri Narasus Coffee Company Private Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous rated amount (Rs. crore)	Current rated amount (Rs. crore)	Rating action
Long term – Fund-based – Working capital facility	34.90	34.90	[ICRA]A- (Stable); reaffirmed
Short term – Interchangeable	(19.90)	(19.90)	[ICRA]A2+; reaffirmed
Long term– Unallocated	2.50	2.50	[ICRA]A- (Stable); reaffirmed
Total	37.40	37.40	

*Instrument details are provided in Annexure I

Rationale

The reaffirmation of the ratings of Sri Narasus Coffee Company Private Limited (SNCPL) considers the extensive experience of the promoters, its proven operational track record in the coffee industry and its established market position in the roast and ground (R&G) coffee segment in Tamil Nadu, aided by its strong brand presence and a wide distribution network. The revenues are likely to grow at around 10% per annum over the medium term, driven by its diversified business profile, addition of new export customers and the growing volumes of instant coffee in the domestic market.

In FY2024, the performance had remained comfortable with an operating income growth of ~18% and a healthy 8.3% expansion in operating margin compared to the previous fiscal. In the current fiscal, the performance is likely to be impacted by a significant increase in raw material (RM) prices. While the entity has raised coffee prices at regular intervals, the hikes are likely to be inadequate compared to the increase in raw material cost. Coffee bean prices have been high in the opening season of February 2025. If the prices sustain at such high levels, the ability of the entity to further pass on the increased cost remains to be seen. Nonetheless, the leverage and coverage metrics continue to be comfortable with an expected TD/OPBDITA of ~1.60 times and an interest coverage of 6.81 times in FY2025.

The working capital requirement has increased with the continuous rise in RM cost, which has been funded through higher fund-based limit utilisation as well as the usage of available liquidity. Nonetheless, the current liquidity balance remains adequate at Rs 20.78 crore as of December 2024. The working capital utilisation is also expected to normalise once the coffee procurement season peaks during July/August.

The ratings remain constrained by the high geographical concentration of SNCPL's revenues in both the domestic and export markets, exposing its revenues to the risk of changes in consumer preference. Besides the volatility in raw material prices, the company is vulnerable to competition and the adverse economic developments in its key export markets. The ratings factor in the limited growth potential in the R&G segment owing to the growing preference among consumers for instant coffee and the intense competition in the domestic instant coffee segment.

The Stable outlook reflects ICRA's expectations that SNCPL will continue to benefit from a diversified business profile and its established market position in the R&G segment in Tamil Nadu with a wide distribution network.

Key rating drivers and their description

Credit strengths

Established presence in the R&G and instant coffee segments – SNCPL has an established presence in Tamil Nadu in the R&G and instant coffee segments, which has enabled the company to garner a strong market share in the state. The company has a strong customer base in Tamil Nadu for the flavour and aroma of its R&G products, leading to stable revenue in the segment. It has a wide network of retail outlets across several locations in Tamil Nadu, which ensures smooth distribution and easy availability of products. Apart from its own retail network, it sells its products through distributors and supermarkets in Tamil Nadu and other states. Further, the business profile is diversified, with presence in the instant coffee segment, both in the domestic and export markets (which accounted for 57% and 64% of total revenues in FY2024 and 10M FY2025, respectively), which has supported SNCPL's revenues over the years.

Comfortable financial profile – The company's capital structure remains comfortable with a gearing of 0.2 times and TOL/TNW of 0.3 times as on March 31, 2024, on the back of consistent earnings from operations generated over the years. The key metrics such as interest coverage and DSCR remained comfortable at ~7.98 and 7.26 times, respectively, in FY2024. While the coverage metrics are likely to moderate in the current fiscal, they are seen to remain comfortable. Also, the working capital requirement has increased with the continuous rise in RM cost, which has been funded through higher fund-based limit utilisation as well as the usage of available liquidity. Nonetheless, the current liquidity balance remained adequate at Rs. 20.78 crore as of December 2024. The working capital utilisation is also expected to normalise once the coffee procurement season peaks during July/August.

High entry barriers in branded coffee business due to regional preference for different aroma/flavour – SNCPL's established presence in the domestic R&G segment has enabled it to create a strong consumer base for the flavour and aroma of its coffee. This ensures repeat purchases from its customers and aids revenue stability under its R&G segment to an extent.

Credit challenges

Exposed to high geographical concentration – In the domestic market, the company derives close to 90% of its revenues from Tamil Nadu in both the R&G and instant coffee segments, resulting in high geographical concentration. Moreover, intense competition in both the segments limits SNCPL's growth potential. Besides, its geographical concentration in the export segment is high as more than 80% of its export revenue was derived from the top two export destinations in FY2024 and 10M FY2025. Nevertheless, SNCPL has been able to leverage its brand equity in Tamil Nadu to improve its sales volume in the domestic instant coffee segment in recent fiscals.

Intense competition limits pricing flexibility – SNCPL remains exposed to intense competition, especially from pan-India brands. Although its long legacy has allowed the company to avail a price premium in the R&G segment, increasing volumes in the instant coffee segment exposes it to price competition. The competition and pricing constraints are expected to continue amid the increasing awareness and rising coffee consumption in the domestic market.

Exposure to volatility in raw material prices – The seasonal nature of the crop and fluctuations in the output of the company's key raw materials, i.e., Arabica and Robusta, have kept the prices of coffee beans volatile over the years. This has impacted the margins, as can be seen in the current fiscal, when the margins are estimated to have moderated to ~6% from ~8% in FY2024. Intense competition from regional brands and large MNCs limits the pricing flexibility even after absorbing the volume moderation to an extent and exposes SNCPL's earnings to the variations in raw material prices. Besides, SNCPL's earnings are vulnerable to the fluctuations in foreign exchange to the extent of its unhedged exposure that arises from raw material imports and instant coffee exports.

Limited growth opportunity in R&G segment and intense competition in domestic instant coffee segment – The domestic R&G market is mainly limited to Tamil Nadu and Karnataka, with major preference among the older generation, which provides limited growth potential. This is reflected in the declining contribution from this segment in the last three-four fiscals. Further,

the instant coffee segment is dominated by multinational brands, resulting in limited growth opportunity in the domestic market which requires immense marketing as well as branding efforts.

Liquidity position: Adequate

SNCCPL's liquidity level is expected to remain adequate. While the cash flow from operations is likely to remain negative in the current fiscal, it is likely to be funded through the available working capital limits and the FD balance. The current FD balance of Rs. 6 crore remains adequate to meet the debt servicing requirements. There is no large capex outflow and the debt repayment is likely to remain moderate at Rs. 1.71 crore in FY2026.

Rating sensitivities

Positive factors – ICRA may upgrade the company's ratings if it is able to significantly scale up its operations on the back of better business diversification and improve its profitability, while sustaining its comfortable credit metrics.

Negative factors – Pressure on the ratings could arise if there is any sustained pressure on the earnings or any large debt-funded capital expenditure, which would adversely impact the debt protection metrics and liquidity. A specific credit metric for downgrade would be interest cover of less than 4 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Not Applicable
Consolidation/Standalone	The ratings are based on the standalone financial profile of the company

About the company

SNCPL, managed by Mr. Sivanantham and his family at present, was incorporated in 2009 as a private limited company, before which it was operating as a partnership firm. The promoter group has had an extensive presence in the coffee business since 1926.

The company processes and markets coffee under two major segments, R&G coffee and instant coffee. Under its R&G segment, it derives revenues from the domestic market, primarily Tamil Nadu. The revenues in the instant coffee segment are diversified across the domestic and export markets. Apart from coffee, it markets tea and other non-coffee products such as vermicelli, *atta*, *sooji* and jaggery powder. Its manufacturing facility is at Salem, Tamil Nadu.

Key financial indicators (audited)

	FY2023	FY2024	9M FY2025*
Operating income	356.1	420.4	385.2
PAT	5.3	16.7	15.2
OPBDIT/OI	4.1%	8.3%	6.1%
PAT/OI	1.5%	4.0%	3.9%
Total outside liabilities/Tangible net worth (times)	0.4	0.3	0.3
Total debt/OPBDIT (times)	3.7	0.9	1.6
Interest coverage (times)	6.5	8.0	6.8

*9M FY2025 numbers are provisional

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs. crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Current (FY2025)			Chronology of rating history for the past 3 years					
	FY2025			FY2024		FY2023		FY2022	
	Type	Amount rated (Rs. crore)	Mar 20, 2025	Date	Rating	Date	Rating	Date	Rating
Long term - Cash credit – Fund-based	Long term	34.90	[ICRA]A- (Stable)	11-MAR-2024	[ICRA]A- (Stable)	27-MAR-2023	[ICRA]A- (Stable)	30-DEC-2021	[ICRA]A- (Stable)
Long term – Unallocated	Long term	2.50	[ICRA]A- (Stable)	11-MAR-2024	[ICRA]A- (Stable)	-	-	-	-
Short term - Export packing credit - Interchangeable	Short term	(19.90)	[ICRA]A2+	11-MAR-2024	[ICRA]A2+	27-MAR-2023	[ICRA]A2+	30-DEC-2021	[ICRA]A1

Complexity level of the rated instruments

Instrument	Complexity Indicator
Fund based – Working capital facility	Simple
Short term - Interchangeable	Very Simple
Long term- Unallocated	NA

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	Working capital facility	NA	NA	NA	34.90	[ICRA]A-(Stable)
NA	Interchangeable	NA	NA	NA	(19.90)	[ICRA]A2+
NA	Unallocated	NA	NA	NA	2.50	[ICRA]A-(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

ANALYST CONTACTS

Girishkumar Kadam

+91 33 7150 1120

girishkumar@icraindia.com

Vikram V

+91 22 6169 3328

vikram.v@icraindia.com

Sumit Jhunjunwala

+91 33 6521 6814

sumit.jhunjunwala@icraindia.com

Rishin Devnath

+91 33 6521 6811

rishin.devnath@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar

+91 22 6114 3406

shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani

Tel: +91 124 4545 860

communications@icraindia.com

HELPLINE FOR BUSINESS QUERIES

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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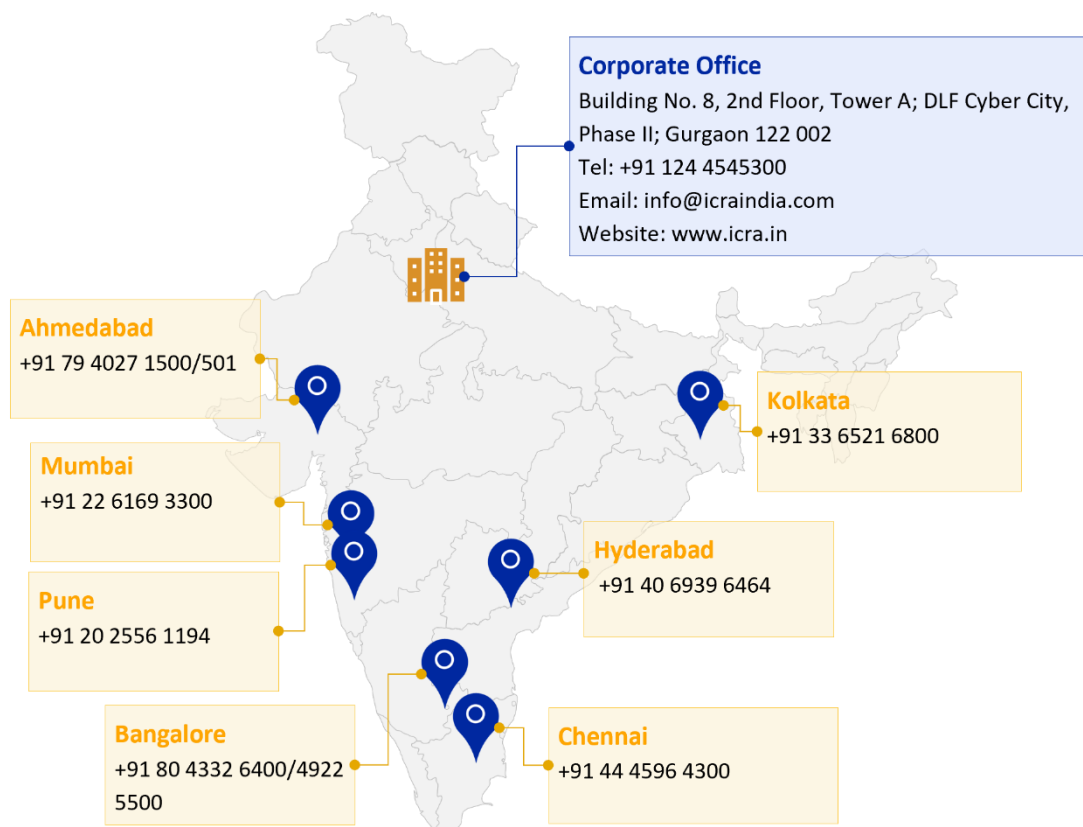


Registered Office

B-710, Statesman House, 148 Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45



Branches



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