

July 27, 2023

Bolas Agro 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 – Cash Credit	110.00	173.00	[ICRA]A (Stable); reaffirmed
Short-term - Fund based	108.00	0.00	-
Short-term - Fund based – Working Capital Demand Loan	0.00	65.00	[ICRA]A2+; reaffirmed
Short-term - Non-fund based – Others	27.00	69.00	[ICRA]A2+; reaffirmed
Short-term-Unallocated	87.00	0.00	-
Total	332.00	307.00	

*Instrument details are provided in Annexure-1.

Rationale

ICRA has taken a consolidated view of the business and financial profiles of Bolas Agro Private Limited (BAPL) and Bola Surendra Kamath & Sons (BSK), the partnership firm of the same promoters, based on the strong operational and financial linkages between the entities and their common management group. ICRA has analysed the consolidated financial statements of BAPL.

The reaffirmation of the assigned ratings reflects a steady growth in BAPL's revenue by over 10% in FY2023, which as per ICRA estimates would continue to grow in future, though with some moderation. Further, the ratings continue to draw comfort from BAPL's strong financial profile, reflected in its healthy cash accruals and comfortable debt protection metrics, resulting in a comfortable liquidity position. The company benefits from the long and established track record of the promoters in the cashew processing industry and its diversified nature of operations with presence in various other agricultural commodities like coffee, edible oil, almonds and other dry fruits. The business is supported by the company's established brand, Bolas, which has added value to its newly launched products under the brand name of R U Nutz and Molsi's, especially catering to the retail segment through its franchise-based retail outlets, own stores and online sales achieved through various platforms. Further, ICRA notes BAPL's diversified customer base across all segments and strong relationships with customers, which ensure regular orders and stable demand. As per ICRA's estimates, going forward, the company would continue to maintain a steady growth in its revenues, healthy cash accruals and comfortable debt protection metrics.

The ratings are, however, constrained by the low value-adding nature of the trading business and intense competition in the cashew segment with exporting countries like Vietnam. ICRA notes that the profitability of the company moderated in FY2023 on account of increased trading operations, which inherently carries thin margins. ICRA believes that the operating profitability of the company is likely to remain range bound at around 5% going forward, considering the stable realisations expected in the near future and higher trading volumes. The ratings also consider the seasonal nature of purchase and sales of key commodities like raw cashews, coffee and other dry fruits, which result in an elongated working capital cycle in a few months and makes the company exposed to inventory and price risks. Further, the profitability of the company remains susceptible to volatility in commodity prices, duty structure on key products like cashews and edible oil and any adverse movements in foreign exchange rates. Nevertheless, ICRA, notes that such risks are partially mitigated by BAPL's established market position, long experience of the promoters and prudent risk mitigation policies on foreign exchange movements and price volatility.

The Stable outlook assigned to the rating reflects ICRA's expectations that BAPL will continue to benefit from the track record and experience of its promoters, which will support a steady revenue growth and stable profitability.

Key rating drivers and their description

Credit strengths

Experienced promoters and a leading position with an established brand – The promoter family has a long and proven experience of more than six decades in the cashew processing industry, managing business through its partnership firms. Moreover, the company has successfully diversified into trading of coffee, palm oil, sunflower oil and other dry fruits, lending stability in revenues and reducing reliance on any specific product. The company markets its products, primarily dry fruits, to retailers in India under the brand name of R-U Nutz and Molsi's, whereas other products like edible oil are sold under the brand name of Palm Raja and Leader Gold.

Diversified product range – BAPL is establishing its retail outlets under its own brand. The company has expanded its product portfolio to include a range of products like flavoured cashew nuts, almonds, edible oil, dates, and almonds, etc., to cater to its customers.

Diversified customer and supplier bases – BAPL has a diversified set of customers and suppliers across its major business segments, with the top-10 customers in the cashew segment contributing less than 13% to the overall total revenues in FY2023. Long relationships with customers resulted in repeat orders and stable demand. Similarly, BAPL sources raw materials like raw cashew from a large number of suppliers from different countries like Africa, Singapore and the UAE, whereas coffee and edible oil are sourced locally within India from various suppliers.

Strong financial profile with comfortable debt protection metrics – BAPL's debt coverage metrics are comfortable, evident from TOL/TNW and interest coverage ratio of 1.1 times and 20.5 times, respectively, as on March 31, 2023 (provisional). The total debt of the company includes working capital from banks and unsecured loans from the promoters. ICRA notes that the unsecured loans are interest free and would remain in the business for a long term, till the credit facilities are active with the banks.

Credit challenges

Low value-additive nature of business and intense competition – The industry, in which the company operates, is fragmented due to low entry barriers and low product differentiation. This leads to limited pricing flexibility and moderate profitability indicators. Domestic cashew processors face intense competition from other exporting countries such as Vietnam, due to the availability of cheap labour and higher mechanisation. Further, nearly 70% of the company's revenue is derived from trading of various commodities, which inherently carries thin margins.

Large and seasonal working capital requirement on account of nature of business – The seasonal nature of raw material procurement, especially in the cashew and coffee segments, leads to high working capital requirements in a few months. Notwithstanding the volatile working capital requirements round the year, the average utilisation of fund-based limits remained low in FY2023, given the prudent working capital policies followed, timely realisation of receivables and consistent deployment of internal accruals for funding the working capital requirements.

Vulnerability to fluctuations in commodity prices, regulatory risks and foreign exchange rates – BAPL remains vulnerable to volatility in commodity prices and any adverse movements in foreign exchange rates and the duty structure. It is also exposed to the risk of inventory price decline owing to the elongated holding period for certain commodities, though this is mitigated to some extent by BAPL's prudent risk management processes.

Liquidity Position – Adequate

BAPL's liquidity position is adequate, supported by positive cash flow from operations of around Rs. 25 crore and healthy cash accruals in FY2024 as per ICRA estimates. Additionally, presence of sufficient unutilised working capital limits, absence of any repayment obligations and nil debt-funded capex commitment in the near term, provide comfort to the company's liquidity. The company's average utilisation of fund-based working capital limits during the last 12 months up to June 2023 has remained

low at around 27%. Both BSK and BAPL had a consolidated cash and cash equivalent of Rs. 25.8 crore as on March 31, 2023. Also, the company utilises unsecured loans from the promoters (interest free) of Rs. 145.0 crore for its working capital requirements, which provides notable degree of comfort.

Rating sensitivities

Positive factors – The ratings could be upgraded, in case of a significant increase in BAPL’s revenues and profitability on a sustained basis, while maintaining adequate liquidity and comfortable debt coverage metrics.

Negative factors – Pressure on BAPL’s ratings could arise, if there is a sharp decline in its revenues and profitability, resulting in lower cash flows and weakening of debt coverage metrics, on a sustained basis. Any significant stretch in the working capital cycle or any unanticipated large debt-funded capex/ investments, impacting the company’s liquidity position, could also be a trigger for ratings downgrade. A specific credit metric that could result in a downgrade is if TOL/TNW remains above 1.5 times, on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not Applicable
Consolidation/Standalone	Consolidation - ICRA has taken a consolidated view of Bola Surendra Kamath & Sons and Bolas Agro Private Limited, based on the strong operational and financial linkages between the entities and their common management group. ICRA has analysed the consolidated financial statements of BAPL

About the company

BAPL was established in February 2020 by the Kamath family from Karnataka. Earlier, the same promoters were operating a partnership firm, Bola Surendra Kamath & Sons (the firm, BSK – rated [ICRA]BBB+ (Positive); withdrawn in March 2021), which was established in 2005 by Mr. B. Damodar Kamath. The new entity has been established to transfer the existing operations from the partnership firm to the same, although some of the assets remained in the partnership firm, against which BAPL pays a lease rental to BSK. BAPL trades in agricultural commodities like cashews, coffee, almonds, pistas and other dry fruits, along with a large presence in the trading of palm oil, sunflower oil, mustard oil and other commonly used edible oils. BAPL continues to use the same cashew processing facility in Udupi district of Karnataka under the partnership firm, which has a processing capacity of 200 MT per day.

Key financial indicators

	FY2021	FY2022	FY2023*
Operating Income (Rs. crore)	1,006.0	1,418.1	1,571.8
PAT (Rs. crore)	38.7	61.9	50.2
OPBDIT/OI	6.8%	6.3%	4.8%
PAT/OI	3.9%	4.4%	3.2%
Total Outside Liabilities/Tangible Net Worth (times)	2.0	1.2	1.1
Adjusted Total Outside Liabilities /Adjusted Tangible Net Worth (times)#	0.2	0.1	0.2
Total Debt/OPBDIT (times)	2.8	1.9	2.8
Adjusted Total Debt/ OPBDIT (times)#	0.6	0.3	0.8
Interest Coverage (times)	8.6	32.5	20.5

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; *Provisional financials

Source: Company; ICRA Research

#Assuming entire interest free unsecured loan from the promoters as Quasi equity

Status of non-cooperation with previous CRA: Not applicable

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 (crore) as on June 30, 2023	Date and Rating on July 27, 2023	Date & Rating		
					FY2023	FY2022	FY2021
					July 25, 2022	July 05, 2021	-
1 Fund Based-Cash Credit	Long-term	173.00	-	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A- (Stable)	-
2 Fund Based	Short-term	0.00	-	-	[ICRA]A2+	[ICRA]A2+	-
3 Fund Based-Working Capital Demand Loan	Short-term	65.00	-	[ICRA]A2+	-	-	-
4 Non-Fund Based-Others	Short-term	69.00	-	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	-
5 Unallocated	Short-term	0.00	-	-	[ICRA]A2+	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-Term - Fund Based – Cash Credit	Simple
Short-Term - Fund Based – Working Capital Demand Loan	Very Simple
Short-Term - Non-Fund Based – Others	Very 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-1: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Long Term-Fund Based – Cash Credit	NA	NA	NA	173.00	[ICRA]A (Stable)
NA	Short Term-Fund Based – Working Capital Demand Loan	NA	NA	NA	65.00	[ICRA]A2+
NA	Short Term- Non-Fund Based Limits – Letter of Credit	NA	NA	NA	55.00	[ICRA]A2+
NA	Short Term- Non-Fund Based Limits – Bank Guarantee	NA	NA	NA	10.00	[ICRA]A2+
NA	Short Term- Non-Fund Based Limits – Forward Contract Limit	NA	NA	NA	4.00	[ICRA]A2+

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure-II: List of entities considered for consolidated analysis:

Company Name	Consolidation Approach
Bola Surendra Kamath & Sons (Partnership Firm)	Full consolidation
Bolas Agro Private Limited	Full consolidation

Source: Company

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Branches



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