October 06, 2023

Aachi Special 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
Long term fund based – Term loan	10.00	8.44	[ICRA]BBB-(Stable); Reaffirmed
Short term fund based – Cash Credit	50.00	0.00	-
Short term fund-based – Others	30.00	130.00	[ICRA]A3; Reaffirmed/Assigned
Long Term/Short Term-Fund Based – Cash Credit	0.00	70.00	[ICRA]BBB-(Stable)/[ICRA]A3; Assigned
Long Term/Short Term – Unallocated	0.00	91.56	[ICRA]BBB-(Stable) / [ICRA]A3; Assigned
Total	**90.00**	**300.00**	

**Instrument details are provided in Annexure-I*

Rationale

The ratings outstanding on the bank lines of Aachi Special Foods Private Limited ('Aachi Special') consider ICRA's expectation that its credit profile will remain stable supported by its strong operational linkages with Aachi Masala Foods Private Limited ('AMFPL'), flagship entity of Aachi group, and healthy financial flexibility enjoyed by Aachi Special, by virtue of being a part of the larger Aachi Group[1] ('The Group'). Aachi Special is the raw material procurement arm of the group, procuring 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, Nazareth Foods Private Limited ('NFPL') and Aachi Spices and Foods Private Limited ('ASFPL').

The rating continues to factor the stable credit profile of the group and ICRA's expectation of a stable performance going forward supported by strong presence of the "Aachi" brand in its key markets and extensive experience of the promoters in the manufacturing and distribution of masala powders and other related products spanning over two decades. The rating also favourably considers 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 in South India, and as well as its expanding footprint across other domestic and export markets. ICRA also notes that the Group has completed its investments of over Rs. 80.0 crore (spent during FY2021–Q1 FY2024) based on its application for the Government's Production Linked Incentive (PLI) scheme for the food processing industry and has also started receiving subsidy under the scheme from FY2023. While this has resulted in an increase in overall debt for the Group, the same is expected to scale up its operation over the medium term.

The rating, however, also factors the inherent competitive intensity in the industry, which limits its pricing power, and high geographical concentration risk with around 74% of its revenues derived from a single market (Tamil Nadu) in FY2023 although its presence in markets beyond Tamil Nadu is increasing. The Group's financial profile is characterised by moderate profit margins due to pricing pressure, higher selling and advertisement costs, and interest expenses. AMFPL has high dependence on working capital loans and has availed long-term debt towards project capex including for PLI and brand development in the past, thus resulting in moderate coverage and leverage levels despite equity infusions from the promoter in FY2023 and Q1 FY2024. The consolidated net debt to OPBDITA, interest cover and net outside liabilities to tangible net worth was 4.1 times, 2.3 times and 1.7 times, respectively, as of March 2023. However, the debt metrics are likely to improve, supported by expected improvement in cash accruals and absence of any significant debt-funded capex plans over the near to medium term.

[1] *AMFPL, Nazareth Foods P Limited (NFPL), Aachi Spices and Foods P Limited (ASFPL) and Aachi Special collectively referred to as the Aachi Group.*

Key rating drivers and their description

Credit strengths

Stable order inflow from Aachi group companies – Aachi Special is the raw material procurement arm of the Group, procuring raw materials like chillies, coriander, pepper, turmeric, cardamom, etc. through traders at various centres and preserves the same in cold storage for onward supply to AMFPL, NFPL and ASFPL. Going forward, ICRA expects Aachi Special's revenues to remain supported by AMFPL's strong business prospects on the back of strong brand equity and a wide distribution network.

Extensive experience of promoter and strong brand equity – The Aachi Group has established itself as a dominant player in the processing and marketing of powdered spices, instant mixes, pickles, spices, whole wheat flour, oil, clarified butter, etc, mainly in the South Indian market. Aided by the extensive experience of its promoter, Mr. Padmasingh Isaac, stable demand and the strong brand support, the Group's revenues grew at a compounded annual growth rate (CAGR) of 12% over the last four years ending in FY2023. Going forward, its established brand image and expanding footprint across India are likely to support the revenue growth. Further, the promoter has infused an equity of Rs. 34.5 crore in FY2023[2] and Rs. 14.4 crore in Q1 FY2023 to fund the company's expansion plan under the PLI scheme.

Integrated Group structure and well-entrenched distribution network – The Group's operations are integrated, supporting its business profile and stability in earnings. Aachi Special is the raw material procurement arm of the Group. It procures raw materials like chillies, coriander, pepper, turmeric, cardamom, etc, and preserves them in cold storage facilities for onward supply to AMFPL, NFPL and ASFPL. AMFPL markets the products manufactured by the Group, including NFPL and ASFPL. It also has a manufacturing division to meet the rising demand for its products. The integrated nature of operations across the value chain supported by a well-entrenched distribution network aids the Group's efficiency improvements and sales growth. AMFPL has a strong distribution network of seven supreme distributors, 3,500 direct distributors and over 12 lakh retailers/ outlets. The Group's diversified and affordable product range along with its distribution network have supported its stable sales volume and widespread product acceptance across geographies.

Expanding market presence with focussed marketing campaigns to aid revenue growth – In FY2023, AMFPL generated ~74% of its revenues from Tamil Nadu, which has remained broadly stable in recent years. The Group has been expanding its presence pan India, with greater focus on domestic markets other than the southern region, through marketing and advertisement campaigns. In addition, the company has also set up new warehouse depots in markets other than South India to increase its product penetration. The same is expected to support the Group in market penetration in the new geographies over the medium term. The increasing brand reach in the new markets, coupled with focused marketing campaigns via media advertisements are aimed at improving the Group's revenues, going forward.

Credit challenges

Moderate financial profile – The Group's revenue witnessed a healthy growth of ~30% to Rs. 1,755.2 crore in FY2023 aided by market penetration across geographies especially in Andhra Pradesh and Karnataka and new product launches across markets. The Group's operating income in Q1 FY2024 stood at Rs. 423.9 crore. The consolidated operating margin contracted in FY2023 to 9.0% from 10.4% in FY2022 because of higher raw material and selling costs; although the increase in realisations in FY2023 helped the company to partially pass along the increase in raw material prices. The margins remain moderate, restricted by the stiff competition from organised and unorganised players, resulting in limited pricing flexibility and rising advertisement and selling expenditure, which are critical to enter new markets. The margins are also vulnerable to any large unfavourable movement in commodity prices. AMFPL has high dependence on working capital loans and has availed long-term debt towards project capex including for PLI and brand development in the recent past, resulting in increase in borrowings. The consolidated net debt to OPBDITA, interest cover and net outside liabilities to tangible net worth was 4.1 times, 2.3 times and 1.7 times,

[2] *Rs. 26.5 crore in AMFPL and Rs. 8.0 crore in Aachi Special in FY2023; and Rs. 14.4 crore in AMFPL in Q1 FY2024.*

respectively, as of March 2023. However, the debt metrics are likely to improve, supported by improvement in accruals and the absence of any significant debt-funded capex plans over the near to medium term.

High geographical-concentration risk – The Aachi Group continues to derive most of its revenues from the southern states, especially Tamil Nadu (~74% of revenues in FY2023), because of its wide distribution network and better visibility in the region. However, with focused marketing campaigns in other regional markets, aided by the launch of new, ready-to-cook and ready-to-eat variants, the Group's geographical diversification is expected to improve over the medium to long-term.

Stiff competition and high working capital intensity – The 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 its business, the Group's working capital intensity was moderately high with an NWC/OI of 46.4% in FY2023. The Group procures raw materials in bulk to gain price advantages 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 a key monitorable.

Liquidity position: Adequate

The Aachi Group's liquidity position is expected to remain adequate supported by stable cash flow from operations. While the working capital utilisation is around 60% on a standalone basis, the average utilisation at the Group level stood at 86% of sanctioned limits in the last 12 months ended in June 2023. Further, the Group has free cash and bank balances of Rs. 7.1 crore, of which Aachi Special has Rs. 0.2 crore as on June 30, 2023. In addition, the Group has cash flow fungibility due to its inter-linkages of operations and its strategic importance. Against that, the Group has a consolidated principal repayment of Rs. 31.82 over Q2-Q4 FY2024, Rs. 43.76 crore for FY2025 and Rs. 33.52 crore for FY2026 on its existing loans. Aachi Special has a principal repayment of Rs. 2.81 for Q2-Q4 FY2024 Rs. 3.75 crore for FY2025 and Rs. 1.88 crore for FY2026 on its existing loans. ICRA expects the same to be serviced comfortably from its cash flow for operations even as liquid cash balances are minimal.

Rating sensitivities

Positive factors – Improvement in credit profile of AMFPL could accelerate the transition towards a higher rating. The rating shall also be uplifted by a sharp improvement in scale of operations, earnings, cash flows and improvement in the standalone debt metrics of the company.

Negative factors – Negative pressures on rating could arise if the support and linkages with AMFPL weakens or if there is deterioration in the credit profile of AMFPL and/or sharp deterioration in earnings and / or stretch in working capital cycle impacting liquidity profile of the company.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	The ratings are based on implicit support from the group company, Aachi Masala Foods Private Limited
Consolidation/Standalone	The ratings are based on the standalone financial profile of the company

About the company

Incorporated on September 12, 2007, Aachi Special Foods Private Limited (Aachi Special) is engaged in the business of procuring raw materials like chillies, coriander, pepper, turmeric, cardamom, kasuri methi, cloves, jeera etc. and preservation of the same in cold storage for onward supply to the other Group companies. ASFPL is promoted by Mr. Ashwin Pandian and Mr. Abhishek Abraham, sons of Mr. A. D. Padmasingh Isaac, the Founder–Chairman of AMFPL.

Key financial indicators – Aachi Special

Standalone	FY2022 (audited)	FY2023 (provisional)
Operating income	532.7	682.6
PAT	8.8	9.5
OPBDIT/OI	5.0%	5.0%
PAT/OI	1.7%	1.4%
Total outside liabilities/Tangible net worth (times)	6.1	6.4
Total debt/OPBDIT (times)	1.3	3.7
Interest coverage (times)	2.3	2.0

Amount in Rs crore; Source: Company; ICRA Research. Financial ratios in this document are ICRA adjusted figures and may not be directly comparable with results reported by the company in some instances; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; total debt includes lease liabilities.

Key financial indicators – Aachi Group

Consolidated (provisional)	FY2022	FY2023
Operating income (OI)	1,359.2	1,755.2
PAT	21.4	44.4
OPBDIT/OI %	10.4%	9.0%
PAT/OI %	1.6%	2.5%
Total outside liabilities/Tangible net worth (times)	1.6	1.8
Total debt/OPBDIT (times)	3.4	4.1
Interest coverage (times)	2.4	2.3

Amount in Rs crore; Source: Company; ICRA Research. The numbers are provisional and consolidated by ICRA. Hence, the financial ratios in this document are ICRA adjusted figures and may not be directly comparable with results reported by the company in some instances; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; total debt includes lease liabilities.

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 as of June 30, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					October 06, 2023	December 05, 2022	November 29, 2021	September 14, 2020
1	Fund based – Term Loan	Long term	8.44	8.44	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Negative)	[ICRA]BBB- (Stable)
2	Fund based – Cash Credit	Short term	0.00	-	-	[ICRA]A3	[ICRA]A3	[ICRA]A3
3	Fund-based – Others	Short term	130.0	-	[ICRA]A3	[ICRA]A3	-	-
4	Proposed Facilities	Short Term	-	-	-	-	-	[ICRA]A3
5	Cash Credit	Long term/ Short Term	70.00	-	[ICRA]BBB- (Stable) / [ICRA]A3	-	-	-
6	Unallocated	Long term/ Short Term	91.56	-	[ICRA]BBB- (Stable) / [ICRA]A3	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long term fund based – Term loan	Simple
Short term fund-based – Others	Simple
Long Term/Short Term-Fund Based – Cash Credit	Simple
Long Term/Short Term – Unallocated	Not applicable

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	**Commodity Funding**	NA	NA	NA	130.00	[ICRA]A3
NA	**Term Loan**	FY2021	NA	FY2026	8.44	[ICRA]BBB- (Stable)
NA	**Cash Credit**	NA	NA	NA	70.00	[ICRA]BBB-(Stable)/[ICRA]A3
NA	**Unallocated**	NA	NA	NA	91.56	[ICRA]BBB-(Stable)/[ICRA]A3

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

Shamsher Dewan
+91 124 4545 328
shamsherd@icraindia.com

K Srikumar
+91 44 4596 4318
ksrikumar@icraindia.com

Vinutaa S
+91 44 4596 4305
vinutaa.s@icraindia.com

Kishore Kumar A
+91 44 4596 4312
kishore.a@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

About ICRA Limited:

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For more information, visit www.icra.in

ICRA Limited

Registered Office

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

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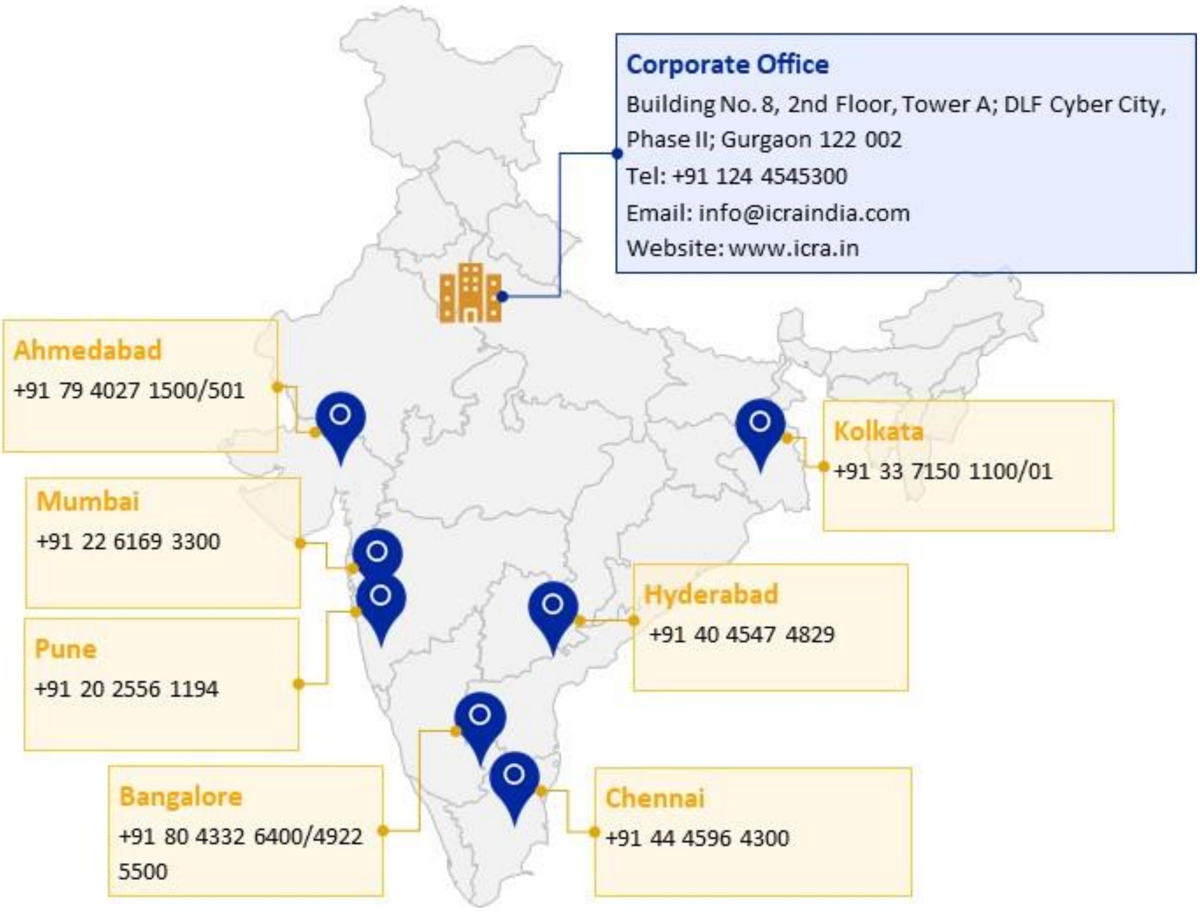

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