

February 05, 2024

India Food Exports: Long-term rating downgraded to [ICRA]BB(Stable); short-term rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based – Term loan	7.4	5.2	[ICRA]BB (Stable); downgraded from [ICRA]BB+ (Stable)
Short-term – Fund based – Cash credit	170.5	0.0	-
Short-term – Fund based – Others	0.0	185.5	[ICRA]A4+; reaffirmed
Long-term/short-term – Unallocated	66.1	53.3	[ICRA]BB (Stable)/[ICRA]A4+; long-term rating downgraded from [ICRA]BB+ (Stable), short-term rating reaffirmed
Total	244.0	244.0	

*Instrument details are provided in Annexure-I

Rationale

The downgrade in the long-term rating takes into consideration the deterioration in India Food Exports' (IFE) debt protection metrics, which are likely to remain under pressure in FY2024. ICRA notes that the firm reported lower profits in FY2023 on account of a sharp drop in cashew kernel prices during the second half of FY2023 against large inventory imported at a relatively higher price. Consequently, the firm's working capital intensity increased significantly on the back of inventory build-up, resulting in high interest cost towards elevated working capital limit utilisation. Nevertheless, comfortable receivable cycle and buffer in the firm's bank limits supported its operations in FY2023. The firm's profitability would be susceptible to fluctuations in the prices of raw cashew nut (RCN) and cashew kernel. The ratings continue to consider IFE's moderate financial risk profile, as reflected by its low net worth base and depressed debt coverage indicators. While the firm is gradually increasing its domestic sales, given the unfavourable export demand, the firm's revenues in FY2024 are likely to show a decline, despite an increase in sales volume, as per ICRA's estimates. The ratings continue to remain constrained by the vulnerability of the firm's profitability to fluctuations in foreign exchange rates. However, the same is mitigated to an extent by the natural hedge provided through imports and hedging via booking of forward contracts. The ratings also factor in the intense competition from Vietnam in the export market and numerous processors in the domestic market, which affects the firm's pricing flexibility. The ratings also consider the inherent risks associated with partnership firms, including the risk of capital withdrawals as witnessed in FY2022 and FY2023. ICRA notes that the firm is undertaking debt-funded capex towards expansion and upgradation of its processing facility, repayment obligation of which could impact the firm's liquidity in future. However, ICRA believes that such capex once completed within the budgeted cost and timeline would improve the firm's operational efficiency and profitability to an extent.

The ratings, however, continue to derive comfort from the extensive experience of IFE's partners in the cashew processing industry for over three decades, which supports its growth prospects. The ratings also derive comfort from the long-term relationship of the firm with its reputed customers, ensuring repeat orders. The location of its manufacturing facilities in Tamil Nadu and Andhra Pradesh supports the firm's margins to an extent as the employee cost is relatively lower than other states in the region. ICRA notes that the firm's working capital cycle would remain elongated, which is inherent to the cashew business. Nevertheless, the firm's ability to avail additional working capital to support its high working capital intensity and stable cash flows would provide comfort to an extent.

The Stable outlook on the [ICRA]BB rating reflects ICRA's expectation that the firm would continue to register a steady growth in sales volumes while maintaining profitable operations, supported by an increase in domestic demand, established customer base and extensive experience of the partners in the cashew industry.

Key rating drivers and their description

Credit strengths

Experienced promoters in cashew processing industry – The Managing Partner, Mr. Satheesh Nair, has an experience of over three decades in the cashew processing industry. His extensive experience supports the firm's growth prospects. The firm has also strategically established its manufacturing facilities in Tamil Nadu and Andhra Pradesh instead of Kerala, considering higher employee expenses in the state, which support its margins to an extent.

Established track record with suppliers/customers and a diversified as well as reputed customer base – The firm's presence in the industry since 1981 has enabled it in establishing strong ties with its key customers (most of which are reputed), which resulted in repeat orders. Additionally, regular supply of high-quality cashew to the quality conscious Japan market helps in maintaining comfortable realisations.

Credit challenges

Weakened financial profile with large inventory related risks – The firm's financial profile is marked with a small scale, which has remained stagnant during the recent years and low profits in FY2023, which is likely to remain unchanged in FY2024. Nevertheless, the sales volume of the firm would continue to grow on the back of domestic demand. However, due to a sharp decline in realisations, the firm's profitability and accruals fell in FY2023. Consequently, the debt protection metrics of the firm deteriorated, as reflected by a gearing of 2.0 times as on March 31, 2023 (1.8 times as on March 31, 2022), which is attributed to high working capital borrowings at the year-end. Further, interest coverage and DSCR also declined to 1.5 times and 1.1 times, respectively in FY2023 against 2.8 times and 1.5 times in FY2022, respectively. Moreover, the firm is exposed to inventory related risks as witnessed in FY2023 when its working capital intensity stood at 42.3% due to large inventory build-up. However, ICRA believes that subsequent to stabilisation in realisations, moderation in working capital cycle and a reasonable buffer in bank limits would support the firm's operations.

Margins exposed to volatility in cashew prices and foreign exchange fluctuations – The procurement of RCN is seasonal with the major portion purchased during April-June. The prices of cashew kernels and RCNs vary on a daily basis, depending on the international demand-supply scenario, exposing the company's margins to price fluctuations as well as forex risks. IFE's operating margins declined to 4.0% in FY2023 from 8.6% in FY2022 owing to a sharp decline in price realisation. Considering the stabilisation of price realisation in FY2024 along with some recovery, the operating margins are likely to improve marginally to around 6%.

Exposed to intense competition and agro-climatic risks – The domestic cashew industry is highly fragmented with the presence of many unorganised players owing to low entry barriers. Indian exporters face intense competition from the Vietnamese processors that enjoy cost advantage on account of cheaper labour and mechanised processing. Intense price competition, along with low product differentiation, limits the firm's pricing flexibility. The cashew industry is susceptible to agro-climatic risks, which can affect the availability and quality of RCN and cashew kernels in adverse weather conditions.

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

Exposure to changes in trade policies, regulatory changes and quality-related risks – The firm is exposed to risks associated with any adverse change in trade policies and regulations related to import of RCN and export of cashew kernels. Additionally, any quality-related issue could impact its business as well as pricing strength.

Risks associated with debt-funded capex – The firm is undertaking a debt-funded capex towards expansion of processing capacities and upgradation of its existing machinery, which if not completed within the planned timelines and budgeted cost

could result in cost overrun. Nevertheless, once completed, the planned capex would support an improvement in the firm's operational efficiency and profitability.

Liquidity position: Adequate

IFE's liquidity position is adequate supported by positive fund flow from operations of more than Rs. 5.0 crore in FY2024 and cushion in the unutilised working capital limits (recently enhanced), which would provide buffer to a. The average utilisation of the working capital limits stood at a moderate level of 86% in 8M FY2024 and at around 59% in FY2023. Nevertheless, after the recent enhancement in the limits and a moderation in realisations, the buffer in limits is likely to increase, which would support meeting any contingency. IFE had term loans of Rs. 5.35 crore on its books as on March 31, 2023, the repayment obligation of which stands at around Rs. 2.76 crore in FY2024. Additionally, the firm is undertaking a capex, which is largely funded by fresh long-term loans of around Rs. 15.0 crore. ICRA believes that the partners of the firm would continue to provide need-based support in the form of unsecured loans.

Rating sensitivities

Positive factors – The ratings may be upgraded if the firm demonstrates an improvement in its earnings, liquidity and debt coverage indicators on a sustained basis.

Negative factors – Pressure on the ratings could arise if there is any significant decline in the scale of operations or profitability, leading to weaker coverage indicators. Also, any large capital withdrawal or a significant increase in the working capital intensity, leading to a tightened liquidity position, can trigger ratings downgrade. Specific credit metrics that may trigger ratings downgrade include DSCR of less than 1.1 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 company's standalone financial profile.

About the company

IFE was established by Mr. Satheesh Nair in 1981 as a partnership firm in Kollam, Kerala. The firm primarily processes cashew kernels from RCNs. The firm imports RCNs from African countries (including Ivory Coast, Gambia and Senegal) and processes the same in its manufacturing facilities in Tamil Nadu and Andhra Pradesh. Nearly two third of the cashew kernels is exported, with Japan and middle eastern countries being the major export destinations. The rest are sold in domestic markets as plain cashew kernels or value-added cashew kernels (dry roasted, oil roasted, salted or flavoured cashews) under the brand names, Delinut and Delis. Besides, the product portfolio of the firm in domestic markets consists of other nuts including pistachios and almonds. It also trades in RCNs and sells other byproducts of cashews including cashew nut-shell liquid, cashew husk and cashew shell cake, among others.

The firm has 29 manufacturing facilities spread across Kanyakumari district in Tamil Nadu and East Godavari district (Tuni, Dharmavaram and Kothapalli) in Andhra Pradesh. Out of 29 manufacturing facilities, some are operated on owned factory space, and some are operated under leased processing space. The RCN manufacturing facilities in Tamil Nadu and Andhra Pradesh have a total processing capacity of 18,500 MT.

Key financial indicators (audited)

IFE Standalone	FY2022	FY2023
Operating income	229.2	317.2
PAT	7.5	0.2
OPBDIT/OI	8.6%	4.0%
PAT/OI	3.3%	0.1%
Total outside liabilities/Tangible net worth (times)	2.1	2.3
Total debt/OPBDIT (times)	5.2	9.0
Interest coverage (times)	2.8	1.5

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 rating (FY2024)				Chronology of rating history for the past 3 years					
		Type	Amount rated (Rs. crore)	Amount outstanding as on Nov 30, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023				Date & rating in FY2022	Date & rating in FY2021
						Feb 05, 2024	Jan 23, 2023	May 30, 2022	Apr 06, 2022		
1	Fund-based-Term loan	Long-term	5.2	1.6	[ICRA]BB (Stable)	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)	[ICRA]BBB- (Negative)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	
2	Fund-based – Cash credit	Short-term	-	-	-	[ICRA]A4+	[ICRA]A4+	[ICRA]A3	[ICRA]A3	[ICRA]A3	
3	Fund-based – Others	Short-term	185.5	-	[ICRA]A4+	-	-	-	-	-	
4	Unallocated	Long-term/short-term	53.3	-	[ICRA]BB (Stable)/[ICRA]A4+	[ICRA]BB+ (Stable)/[ICRA]A4+	-	-	-	-	
5	Fund Based – Cash Credit	Long-term	-	-	-	-	-	-	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term – Fund-based – Term loan	Simple
Short-term – Fund-based – Others	Very 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	Term Loan	April 2020	9.3%	FY2024	2.4	[ICRA]BB (Stable)
NA	Term Loan	April 2020	9.3%	FY2025	2.8	[ICRA]BB (Stable)
NA	PCH/FCPC/OCC	NA	8.5%	NA	120.0	[ICRA]A4+
NA	FBN/FBP	NA	NA	NA	10.0	[ICRA]A4+
NA	SOD	NA	NA	NA	0.5	[ICRA]A4+
NA	OCC/PCH/WCDL	NA	8.5%	NA	50.0	[ICRA]A4+
NA	Forward Cover	NA	7.5%	NA	5.0	[ICRA]A4+
NA	Unallocated	NA	NA	NA	53.3	[ICRA]BB (Stable)/[ICRA]A4+

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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