March 11, 2024

Sri Narasus Coffee Company Private Limited: Ratings reaffirmed and assigned for enhanced limits

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based – Working capital facility	19.90	34.90	[ICRA]A- (Stable); reaffirmed/ assigned for enhanced limits
Short-term – Interchangeable	(4.90)	(19.90)	[ICRA]A2+; reaffirmed/assigned for enhanced limits
Long-term– Unallocated	-	2.50	[ICRA]A- (Stable); assigned
Total	**19.90**	**37.40**	

**Instrument details are provided in Annexure-I*

Rationale

The ratings reaffirmation for Sri Narasus Coffee Company Private Limited (SNCPL) considers the expected improvement in the company's operating performance and margins in FY2024 over the levels witnessed in FY2023. Despite a revenue growth of 22% in FY2023 amid increase in sales volumes in the instant coffee segment, the company's earnings have been under pressure due to a significant increase in raw material prices. SNCPL has not been able to pass on the increase in coffee beans prices due to intense competition across the domestic and export markets. As a result, the operating margins fell to 4% in FY2023 from 8% in FY2022. However, a subsequent price revision has led to an improvement in the operating margin in the current fiscal till December 2023.

The ratings also continue to favourably factor in the extensive experience of SNCPL's promoters and its proven operational track record in the coffee industry. The ratings also consider the company's established market position in the roast and ground (R&G) coffee segment in Tamil Nadu, aided by its strong brand presence and widespread distribution network. Its revenues are likely to grow by 7-10% per annum over the medium term, driven by its diversified business profile, addition of new customers in the export segment and growing volumes of instant coffee in the domestic market.

The ratings, however, 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. The company's performance is exposed to volatility in raw material prices, competition and 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 intense competition in the domestic instant coffee segment.

The Stable outlook on the long-term rating reflects ICRA's expectation that SNCPL is likely to sustain its operating metrics with a flat revenue growth. Further, ICRA expects that the entity's incremental capex, if any, towards expanding its capacity 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

Established presence – 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 Tamil Nadu, especially in the R&G segment. The company has a strong customer base for the flavour and aroma of its R&G products, leading to stable revenue in the R&G segment. SNCPL 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 across the instant coffee segment, both in the domestic and export markets (which accounted for 50% of total revenues in FY2023), which supported SNCPL's revenues over the years.

Comfortable financial profile – The company's capital structure remains comfortable with a gearing of 0.3 times and TOL/TNW of 0.4 times as on March 31, 2023, on the back of consistent earnings from operations generated over the years. The key metrics such as interest coverage and DSCR remained comfortable at 6.5 times and 3.8 times, respectively, in FY2023. ICRA expects the coverage metrics to improve in FY2024 and FY2025, with an interest cover above 6 times and DSCR above 4 times. In the longer term, ICRA expects the coverage indicators to remain comfortable, with improvement in its scale of operations.

High entry barriers in the branded coffee business due to regional preference for different aroma/flavour – SNCPL's established presence in the domestic R&G segment has enabled it in creating a strong consumer base for the flavour and aroma of its coffee. This ensures repeat purchases from its customers and aids in 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 revenues was derived from the top-two export destinations in FY2023. 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 the recent fiscals.

Intense competition limits pricing flexibility – SNCPL remains exposed to intense competition, especially from pan-India brands. Although their long legacy has allowed them to avail price premiums in the R&G segment, increasing volumes in the instant coffee segment exposes them to price competition. Amid increasing awareness and coffee consumption in the domestic markets, the competition and pricing constraints are expected to continue.

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, lead to volatility in the price of coffee beans as seen over the years. Intense competition from regional brands and large MNCs limits the pricing flexibility 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. Besides, the instant coffee segment is dominated by multinational brands, leading to limited growth opportunity in the domestic market. It requires immense marketing as well as branding efforts to compete with these brands.

Liquidity position: Adequate

The liquidity remains adequate with the average utilisation of the working capital limit remaining moderate at ~30% during the 12-month period ending in November 2023. The company is expected to generate cash from operations worth Rs. 15-18 crore p.a. over the next two years, against which it has debt repayment obligations of Rs. 1.8 crore p.a.

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 ratings downgrade include 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 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 predominately derives revenues from the domestic market (primarily Tamil Nadu). Its instant coffee revenues 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, among others. Its manufacturing facility is in Salem, Tamil Nadu.

Key financial indicators (audited)

	FY2022	FY2023	9M FY2024*
Operating income	291.9	356.1	305.9
PAT	12.3	5.2	17.7
OPBDIT/OI	8.0%	4.1%	7.3%
PAT/OI	4.2%	1.5%	5.9%
Total outside liabilities/Tangible net worth (times)	0.4	0.4	0.4
Total debt/OPBDIT (times)	1.6	3.7	2.2
Interest coverage (times)	9.2	6.5	7.5

**9M FY2024 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 rating (FY2024)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as of (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					Mar 11, 2024	Mar 27, 2023	Dec 30, 2021	Nov 30, 2020
1	**Fund-based – Working capital facility**	Long term	34.90	-	**[ICRA]A- (Stable)**	**[ICRA]A- (Stable)**	**[ICRA]A- (Stable)**	**[ICRA]A- (Stable)**
2	**Interchangeable**	Short Term	(19.90)	-	**[ICRA]A2+**	**[ICRA]A2+**	**[ICRA]A1**	-
3	**Fund based**	Short Term	-	-	-	-	-	**[ICRA]A1**
4	**Unallocated**	Long term/ Short Term	-	-	-	-	-	**[ICRA]A- (Stable)/ [ICRA]A1**
5	**Unallocated**	Long term	2.50	-	**[ICRA]A- (Stable)**	-	-	-

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

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About ICRA Limited:

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