October 16, 2024

Aachi Special Foods Private Limited: Ratings downgraded to [ICRA]BB+ (Stable) / [ICRA]A4+

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term fund based – Term loan	8.44	18.02	[ICRA]BB+ (Stable); Downgraded from [ICRA]BBB-(Stable)
Short term fund-based – Others	130.00	130.00	[ICRA]A4+; Downgraded from [ICRA]A3
Long Term/Short Term-Fund Based	70.00	80.00	[ICRA]BB+ (Stable)/[ICRA]A4+; Downgraded from [ICRA]BBB-(Stable)/[ICRA]A3
Long Term/Short Term – Unallocated	91.56	71.98	[ICRA]BB+ (Stable)/[ICRA]A4+; Downgraded from [ICRA]BBB-(Stable)/[ICRA]A3
Total	**300.00**	**300.00**	

**Instrument details are provided in Annexure-I*

Rationale

The rating action follows the deterioration in Aachi Group's (the Group) [1] debt metrics in FY2024 against ICRA's expectations and likely sustenance of the same in FY2025. Its interest coverage was 2.2x in FY2024[2] amidst sharp rise in finance cost on the back of increased working capital dependence during the year. Other metrics like Total debt/OPBDITA and DSCR also were moderate at 3.6 times and 1.3 times respectively as on March 31, 2024, weaker than ICRA's earlier expectations. While the Group's revenues grew by 17.1% YoY to Rs. 1,914.1 crore in FY2024, its operating margins broadly remained rangebound (9.7% in FY2024 as against 9.4% in FY2023). The margin expansion was constrained by relatively high advertising and sales promotion expenses and payouts to promoters. Also, the group's working capital utilisation against the sanctioned limits continues to remain high, thus minimising the buffer on liquidity against ICRA's expectations.

The ratings, however, continue to draw comfort from the strong and established presence of the 'Aachi' brand in its key markets, especially Tamil Nadu, and extensive experience of the promoters in the business 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 and its well-entrenched distribution network in South India. ICRA also notes that the Group has received Rs. 15.4 crore in FY2024 (PY: Rs. 9.6 crore) as subsidy from its investments done during FY2021-Q1 FY2024 as part of the Government's Production Linked Incentive (PLI) scheme for the food processing industry. The ratings also factor in Aachi Special Foods Private Limited's ('Aachi Special') strong operational linkages with Aachi Masala Foods Private Limited ('AMFPL') and the Group, and its healthy financial flexibility, by virtue of being part of the larger Aachi Group.

The ratings also consider the relatively high working capital intensity, its geographic concentration and stiff competition in the industry, which restricts its pricing power. The Group procures raw materials in bulk to gain price advantages during the stocking season (February to June). While the company has modified its procurement policy by entering into forward contracts with the large-scale farmers and dealers, its ability to optimise the working capital cycle will be critical for improvement in cashflow position. Aachi Group continues to derive most of its revenues (~95%) from the southern states, especially Tamil

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

[2] Unaudited

Nadu (73% of revenues in FY2024). The company has been carrying out focused marketing campaigns in other regional markets, aided by the launch of new, ready-to-cook and ready-to-eat variants. While the Group has been expanding its presence beyond South India, the extent of the contribution from the same remains minimal, and its ability to achieve material diversification remains to be seen. The Group's earnings are also exposed to high fragmentation and competition in the industry, and consequent pricing pressure from both organised and unorganised players.

The stable outlook on the long-term rating reflects ICRA's expectation that the company will be able to sustain its credit profile, supported by its sustenance of the Group's credit profile, strong brand equity, anticipated improvement in accruals and absence of debt-funded capex plans over the medium term.

Key rating drivers and their description

Credit strengths

Extensive experience of promoter and strong brand equity – The Aachi Group has established itself as a one of the dominant players 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 loyalty, the Group's revenues grew at a compounded annual growth rate (CAGR) of 15% over the last five years ending in FY2024.

Integrated Group structure and well-entrenched distribution network – The Group's operations are integrated, supporting its business profile. 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 cater to the rising demand for its products. The integrated nature of operations across the value chain supported by a well-entrenched distribution network has supported supply chain efficiency and sales growth. AMFPL has a strong distribution network of seven supreme/large distributors, 3,500 direct distributors and it has presence in over 12 lakh retail outlets. This, along with the Group's diversified and affordable product range, has supported its stable sales volume and widespread product acceptance across geographies.

Strong operational linkages with AMFPL and other Group entities – Aachi Special is the raw material procurement arm of the Group and it purchases raw materials like chilli, coriander, pepper, turmeric, cardamom, etc. through traders at various centres and preserves the same in cold storage for supply to other Group companies. ICRA expects ASFPL's revenues to remain supported by the Group's healthy business prospects on the back of its strong brand equity and wide distribution network.

Credit challenges

Moderation in financial profile –While the Group's revenues grew by 17.1% YoY to Rs. 1,914.1 crore in FY2024, its operating margins broadly remained rangebound (9.7% in FY2024 as against 9.4% in FY2023). The expansion in margins was constrained by relatively high advertising and sales promotion expenses and payouts to promoters. The company's coverage indicators moderated in FY2024 with interest coverage of 2.2 times in FY2024, amidst sharp rise in finance cost on the back of increased working capital dependence during the year. Other debt metrics like Total debt/OPBDITA and DSCR also remained moderate at 3.6 times and 1.3 times respectively as on March 31, 2024, weaker than ICRA's earlier expectations. Also, the group's working capital utilisation against the sanctioned limits continues to remain high, thus minimising the buffer on liquidity against ICRA's expectations. ASFPL's standalone financial profile also remains moderate with an operating margin of 4.7% in FY2024[3]. ASFPL's also has moderate debt metrics such as total debt/OPBDITA of 3.4 times and TOL/TNW of 3.3 times as on March 31, 2024.

High working capital intensity – The Group's working capital intensity remained high at 46.9% in FY2024 (PY: 49.0%). The Group procures raw materials in bulk to gain price advantages during the stocking season (February to June). While the

[3] Unaudited

company has modified its procurement policy by entering into forward contracts with the large-scale farmers and dealers, its ability to optimise the working capital cycle will be critical for overall improvement in cashflow position.

High geographic concentration risk and stiff competition – The Aachi Group continues to derive most of its revenues (~95%) from the southern states, especially Tamil Nadu (73% of revenues in FY2024). The company has been carrying out focused marketing campaigns in other regional markets, aided by the launch of new, ready-to-cook and ready-to-eat variants. While the Group has been expanding its presence beyond South India, the extent of the contribution from the same remains minimal and its ability to achieve the meaningful diversification remains to be seen. 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.

Liquidity position: Stretched

The company's liquidity profile remains stretched with minimal cash balance of Rs. 1.7 crore and undrawn working capital lines of over Rs. 100.0 crore. The undrawn portion is primarily available as commodity funding, subject to the inventory levels. While the working capital utilisation is around 50% on a standalone basis, the average utilisation at the Group level stood at 77% of sanctioned limits in the last 12 months ended in June 2024. The Group has cash flow fungibility due to its inter-linkages in operations. Aachi Special has a principal repayment of Rs. 0.8 crore in H2 FY2025 and Rs. 1.5 crore each in FY2026 and FY2027 respectively on its existing loans.

Rating sensitivities

Positive factors – Improvement in credit profile of AMFPL could accelerate the transition towards a higher rating. Sustained and significant growth in earnings and better working capital management leading to improvement in standalone debt metrics and liquidity position could lead to an upgrade.

Negative factors – Pressure on rating could arise if the support and linkages with AMFPL weakens or if there is a sustained and sharp deterioration in earnings and / or stretch in working capital cycle impacting the debt metrics and liquidity profile.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	The ratings are based on implicit support from Aachi Masala Foods Private Limited (rated [ICRA]BBB (Stable))
Consolidation/Standalone	Standalone

About the company

Aachi Group has an established presence in the food products industry for over a decade with its various entities operating throughout the industry value chain—from raw material procurement to end sales. The Group has five manufacturing facilities in and around Chennai, with a total installed processing capacity of 280 metric tonnes per day (MTPD) for chilli powder, coriander powder and mixed spices. AMFPL sells masala products, instant mixes, pickles, spices, turmeric powder, whole wheat flour, oil, clarified butter, water bottles, etc, through its established dealership network.

Aachi Special is the raw material procurement arm of the Group and it purchases raw materials like chilli, coriander, pepper, turmeric, cardamom, etc. through traders at various centres and preserves the same in cold storage for supply to other Group companies.

Key financial indicators – Aachi Special

Standalone	FY2023 (audited)	FY2024 (Unaudited)
Operating income	681.9	845.1
PAT	13.7	12.0
OPBDIT/OI	4.8%	4.7%
PAT/OI	2.0%	1.4%
Total outside liabilities/Tangible net worth (times)	5.3	3.3
Total debt/OPBDIT (times)	3.8	3.4
Interest coverage (times)	2.5	2.3

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	FY2023 (Audited)	FY2024 (Unaudited)
Operating income (OI)	1,634.4	1,914.1
PAT	40.7	42.9
OPBDIT/OI %	9.4%	9.7%
PAT/OI %	2.5%	2.2%
Total outside liabilities/Tangible net worth (times)	1.7	1.7
Total debt/OPBDIT (times)	4.3	3.6
Interest coverage (times)	2.4	2.2

Amount in Rs crore; Source: Company; ICRA Research. The numbers are 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

	Current (FY2025)			Chronology of rating history for the past 3 years					
	FY2025			FY2024		FY2023		FY2022	
Instrument	**Type**	**Amount Rated (Rs. crore)**	**Oct 16, 2024**	**Date**	**Rating**	**Date**	**Rating**	**Date**	**Rating**
Long term / short term-fund based	Long Term/ Short Term	80.00	[ICRA]BB+ (Stable)/ [ICRA]A4+	06-OCT-2023	[ICRA]BBB- (Stable)/ [ICRA]A3	-	-	-	-
Long term / short term-unallocated	Long Term/ Short Term	71.98	[ICRA]BB+ (Stable)/ [ICRA]A4+	06-OCT-2023	[ICRA]BBB- (Stable)/ [ICRA]A3	-	-	-	-
Short term-others-fund based	Short Term	130.00	[ICRA]A4+	06-OCT-2023	[ICRA]A3	05-DEC-2022	[ICRA]A3	-	-
Long term-term loan-fund based	Long Term	18.02	[ICRA]BB+ (Stable)	06-OCT-2023	[ICRA]BBB- (Stable)	05-DEC-2022	[ICRA]BBB- (Stable)	29-NOV-2021	[ICRA]BBB- (Negative)
Short term-fund based	Short Term	-	-			05-DEC-2022	[ICRA]A3	29-NOV-2021	[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	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]A4+
NA	Term Loan	NA	NA	NA	18.02	[ICRA]BB+ (Stable)
NA	Fund based limits	NA	NA	NA	80.00	[ICRA]BB+(Stable)/[ICRA]A4+
NA	Unallocated	NA	NA	NA	71.98	[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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About ICRA Limited:

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