

October 16, 2024

Aachi Masala Foods Private Limited: Rating downgraded to [ICRA]BBB (Stable); 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	113.77	83.63	[ICRA]BBB (Stable); downgraded from [ICRA]BBB+ (Stable)
Long-term Fund-based - Working capital	195.20	253.00	[ICRA]BBB (Stable); downgraded from [ICRA]BBB+ (Stable) / assigned for enhanced amount
Long-term - Unallocated	7.32	68.37	[ICRA]BBB (Stable); downgraded from [ICRA]BBB+ (Stable) / assigned for enhanced amount
Total	316.29	405.00	

*Instrument details are provided in Annexure-I

Rationale

While arriving at the ratings, ICRA has considered the consolidated financial profile of 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').

The rating action follows the deterioration in Aachi Group's debt metrics in FY2024 against ICRA's expectations and likely sustenance of the same in FY2025. Its interest coverage was 2.2x in FY2024¹ 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 rating, however, continues 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 rating also considers 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 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

¹ Unaudited

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 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

Strong brand equity and extensive experience of promoter – 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.

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.

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 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: Adequate

The Aachi Group's liquidity position is expected to remain adequate supported by expected improvement in cash flow from operations. The working capital utilisation remains high in excess of 90% of sanctioned limit on a standalone basis, the average

utilisation at the Group level stood at 77% in the last 12 months ended in June 2024. Further, the Group has minimal free cash and bank balances of Rs. 2.1 crore, of which AMFPL has Rs. 0.2 crore as on June 30, 2024. Against these sources of cash, the Group has consolidated principal repayment obligations of ~Rs. 22.0 crore in H2 FY2025, Rs. 35.6 crore in FY2026 and Rs. 26.4 crore in FY2027 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. The company has no major capex plans in pipeline and the company will continue to undertake only maintenance capex, which is expected to be funded through internal accruals.

Rating sensitivities

Positive factors – Sustained and significant growth in earnings and better working capital management, leading to improved debt metrics and liquidity position could lead to an upgrade. Specific credit metrics that could lead to an upgrade of ratings include interest coverage of more than 3.5 times on a sustained basis.

Negative factors – Negative pressure on the rating will emanate with sustained and sharp deterioration in earnings and / or stretch in working capital cycle impacting the debt metrics and liquidity profile. Specific credit metrics that could lead to a downgrade of ratings include TOL / TNW exceeding 1.9x on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Not Applicable
Consolidation/Standalone	<p>The ratings are based on the consolidated financial profile of Aachi Masala Foods Private Limited, Nazareth Foods Private Limited (rated [ICRA]BBB (Stable)), Aachi Spices and Foods Private Limited (rated [ICRA]BB+ (Stable) / [ICRA]A4+) and Aachi Special Foods Private Limited (rated [ICRA]BB+ (Stable) / [ICRA]A4+).</p> <p>All entities share strong strategic and operational inter-linkages between themselves. The companies have different ownership structures under the family and function as separate legal entities in the same business sector.</p>

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.

Key financial indicators

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 by adjusting the inter-company transactions. Hence, the financial ratios in this document 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 (FY2025)			Chronology of rating history for the past 3 years					
	FY2025			FY2024		FY2023		FY2022	
	Type	Amount Rated (Rs. crore)	Oct 16, 2024	Date	Rating	Date	Rating	Date	Rating
Long term-cash credit-fund based	Long Term	253.00	[ICRA]BBB (Stable)	06-OCT-2023	[ICRA]BBB+ (Stable)	05-DEC-2022	[ICRA]BBB+ (Stable)	26-APR-2021	[ICRA]BBB+ (Stable)
								29-NOV-2021	[ICRA]BBB+ (Negative)
Long term-unallocated	Long Term	68.37	[ICRA]BBB (Stable)	06-OCT-2023	[ICRA]BBB+ (Stable)	05-DEC-2022	[ICRA]BBB+ (Stable)	26-APR-2021	[ICRA]BBB+ (Stable)
Long term-term loan-fund based	Long Term	83.63	[ICRA]BBB (Stable)	06-OCT-2023	[ICRA]BBB+ (Stable)	05-DEC-2022	[ICRA]BBB+ (Stable)	26-APR-2021	[ICRA]BBB+ (Stable)
								29-NOV-2021	[ICRA]BBB+ (Negative)

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term Fund-based – Term loan	Simple
Long-term Fund-based – working capital	Simple
Long-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 – I	FY2020/FY2023	9.5-10.75%	FY2028/FY2029	32.19	[ICRA]BBB (Stable)
NA	Term loan – II	FY2022/FY2023	10.55-12.05%	FY2026/FY2028	13.08	
NA	Term loan – III	FY2023	10.40%	FY2029	23.05	
NA	Term loan – IV	FY2022	7.85%	FY2027	2.64	
NA	Term loan – V	FY2021	9.25%	FY2027	1.75	
NA	Term loan – VI	FY2022	9.25%	FY2027	7.26	
NA	Term loan – VII	FY2022	9.25%	FY2027/FY2028	3.66	
NA	Cash Credit – I	NA	NA	NA	30.00	
NA	Cash Credit – II	NA	NA	NA	40.00	
NA	Cash Credit – III	NA	NA	NA	105.00	
NA	Cash Credit – IV	NA	NA	NA	48.00	
NA	Cash Credit – V	NA	NA	NA	30.00	
NA	Unallocated	NA	NA	NA	68.37	

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	Ownership	Consolidation Approach
Aachi Masala Foods Private Limited (rated entity)	NA	Full Consolidation
Nazareth Foods Private Limited	NA	Full Consolidation
Aachi Spices and Foods Private Limited	NA	Full Consolidation
Aachi Special Foods Private Limited	NA	Full Consolidation

Source: Company

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