

November 06, 2024

## Krishnan Food Processors: Ratings reaffirmed

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term – Fund based – Term loan	23.00	14.06	[ICRA]B- (Stable); reaffirmed
Long term- Interchangeable^	(13.00)	(13.00)	[ICRA]B- (Stable); reaffirmed
Long term - Unallocated	15.70	0.00	-
Short term – Fund based	19.30	16.30	[ICRA]A4; reaffirmed
Short term – Non fund based	2.00	2.00	[ICRA]A4; reaffirmed
Short term - Interchangeable^	(16.00)	(16.00)	[ICRA]A4; reaffirmed
<b>Total</b>	<b>60.00</b>	<b>32.36</b>	

\*Instrument details are provided in Annexure-I; ^sublimit of Fund/Non fund-Based Limits

### Rationale

The ratings reaffirmation for bank loan ratings of Krishnan Food Processor (KFP) considers the overall weak performance of the entity in FY2024 and a likely modest recovery over the medium term, supported by its established presence in the cashew processing sector and long relationships with its key customers.

The ratings, however, remain constrained by the entity's continued weak performance, moderating its financial profile. KFP's capital structure and debt protection metrics remained weak owing to continued losses, resulting in erosion of net worth. These credit metrics are likely to remain weak over the medium term. Income received from the sale of property at Kollam, Kerala for ~Rs. 10.7 crore had supported its liquidity in FY2024. Further, the entity is planning to dispose of a couple of properties in FY2025, which is likely to support its liquidity and reduce its bank borrowings. Timely receipt of proceeds from the sale of property/receipt of funds from the promoter is critical to meet its funding requirements towards working capital and term loan repayment, and the same would be a key rating monitorable. The ratings also remain constrained by subdued cashew kernels prices and intense competition in the cashew processing industry amid slowdown in demand and low value addition in the business. Given the intense cost competition faced from other processors, KFP's operating performance is likely to remain at a moderate level over the medium term. The ratings also consider the fragmented nature of the industry and low product differentiation, which limit KFP's pricing flexibility, exerting pressure on the margins.

The Stable outlook on the long-term rating reflects ICRA's expectation that KFP is likely to improve its earnings and coverage metrics. Further, the outlook underlines ICRA's expectation that the entity's incremental capex, if any, to further increase the capacity will be funded in a manner that it is able to durably maintain its debt protection metrics commensurate with the existing ratings.

### Key rating drivers and their description

#### Credit strengths

**Established presence and long relationship with its customers** – KFP has been involved in processing cashew kernels and trading in raw cashew nuts (RCN) for around four decades. Over the years, the entity has been able to establish a strong relationship with its suppliers, ensuring timely receipt of materials. The entity also enjoys long association with its key customers, comprising traders and food processors, aiding in repeat orders.

## Credit challenges

**Weak financial profile** – KFP’s continuous losses over the past seven years have caused erosion in its net worth and deterioration of debt protection metrics. Besides the high working capital intensity and related firm debt levels, the financial profile of the entity had been adversely impacted by the reducing scale of operations over the years, operating losses and high interest costs. While the earnings remained weak, proceeds received from the sale of the property located at Kollam, Kerala for ~Rs. 10.7 crore had supported its liquidity in FY2024. The proposed sale of a couple of more properties is expected to support its liquidity in FY2025, despite likely cash losses. Timely receipt of funds from the promoter is critical to meet its funding requirements towards working capital and term loan repayment, and the same would be a key rating monitorable.

**Intense competition limits pricing flexibility** – The domestic cashew industry is highly fragmented, with the presence of numerous unorganised players owing to low entry barriers. Further, exports face tough competition from Vietnamese and other processors, which enjoy cost advantage on account of cheaper labour and mechanised processing. Intense price competition, along with low product differentiation, limits the entity’s pricing flexibility, exposing its margins to volatility in kernels and raw cashew prices.

## Liquidity position: Stretched

KFP’s liquidity position is likely to stretched owing to continued weak performance and high working capital requirements in the business. Further, its average working capital utilisation in the past 12 months ending in September 2024 remained high at 95.8% of its sanctioned limit of Rs. 16.0 crore. Given its weak cash flow from operations, the entity is expected to remain dependent on timely fund infusion from the promoter to meet its working capital and debt servicing requirements.

## Rating sensitivities

**Positive factors** – The ratings could be upgraded if the entity is able to demonstrate a healthy growth in revenues and improves its profitability, resulting in better debt protection metrics and liquidity position.

**Negative factors** – Pressure on the ratings could arise if there is sustained pressure on earnings or a deterioration in the working capital cycle, which could adversely impact the liquidity position of the entity. Further, lack of timely financial support from the promoter to support cash flows might also result in ratings downgrade.

## Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	<a href="#">Corporate Credit Rating Methodology</a>
Parent/Group support	Not Applicable
Consolidation/Standalone	The ratings are based on the standalone financial statements of the rated entity

## About the company

Established in 1983, Krishnan Food Processors processes plain cashew kernels from RCNs. The entity imports RCNs mainly from Africa and processes them in its three manufacturing facilities in Kerala and Tamil Nadu, having an aggregate installed capacity to process 1,800 MTPA. It sells processed cashew kernels in domestic and overseas markets. The entity also trades in RCNs through high sea sales and local markets and sells other byproducts such as cashew husk and cashew nutshell in Kerala. KFP is run by Mr. G. Krishnan Nair and employs mostly unskilled workers.

## Key financial indicators

KFP Standalone	FY2023	FY2024*
Operating income	18.4	18.9
PAT	-6.8	-4.1
OPBDIT/OI	-10.3%	-8.1%
PAT/OI	-36.9%	-21.8%
Total outside liabilities/Tangible net worth (times)	-2.8	-1.9
Total debt/OPBDIT (times)	-24.9	-25.4
Interest coverage (times)	-0.4	-0.3

Source: Company, ICRA Research; \*Provisional numbers; All ratios as per ICRA's calculations; Amount in Rs. crore

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

## Status of non-cooperation with previous CRA: Not applicable

## Any other information: None

## Rating history for past three years

Instrument	Current ratings (FY2025)			Chronology of rating history for the past 3 years					
	FY2025			FY2024		FY2023		FY2022	
	Type	Amount Rated (Rs crore)	November 06, 2024	Date	Rating	Date	Rating	Date	Rating
Interchangeable	Long term	(13.00)	[ICRA]B-(Stable)	30-Aug-23	[ICRA]B-(Stable)	19-May-22	[ICRA]B (Stable)	-	-
Term loan	Long term	14.06	[ICRA]B-(Stable)	30-Aug-23	[ICRA]B-(Stable)	19-May-22	[ICRA]B (Stable)	-	-
Unallocated	Long term	-	-	30-Aug-23	[ICRA]B-(Stable)	19-May-22	[ICRA]B (Stable)	-	-
Fund Based	Short term	16.30	[ICRA]A4	30-Aug-23	[ICRA]A4	19-May-22	[ICRA]A4	-	-
Non-Fund Based	Short term	2.00	[ICRA]A4	30-Aug-23	[ICRA]A4	19-May-22	[ICRA]A4	-	-
Interchangeable	Short term	(16.00)	[ICRA]A4	30-Aug-23	[ICRA]A4	19-May-22	[ICRA]A4	-	-

## Complexity level of the rated instruments

Instrument	Complexity Indicator
Long term – Interchangeable	Simple
Long term - Term loan	Simple
Short term - Fund based	Simple
Short term - Non fund based	Simple
Short term – Interchangeable	Simple

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	Interchangeable	-	-	-	(13.00)	[ICRA]B-(Stable)
NA	Term loan	FY2021	-	FY2028	14.06	[ICRA]B-(Stable)
NA	Fund based	-	-	-	16.30	[ICRA]A4
NA	Non fund based	-	-	-	2.00	[ICRA]A4
NA	Interchangeable	-	-	-	(16.00)	[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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