

January 24, 2025

Kerala Nut Food Co.: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term – Interchangeable*	(7.00)	(7.00)	[ICRA]BB (Stable); reaffirmed
Short Term – Fund Based	50.00	50.00	[ICRA] A4+; reaffirmed
Short Term – Interchangeable – Others*	(4.00)	(4.00)	[ICRA] A4+; reaffirmed
Short Term – Interchangeable – Letter of Credit*	(5.00)	(5.00)	[ICRA] A4+; reaffirmed
Total	50.00	50.00	

*Instrument details are provided in Annexure-I; *Sub-limits of Rs. 50 crore short-term fund-based limit, Interchangeable

Rationale

The ratings reaffirmation factors in the extensive experience of Kerala Nut Food Co.'s (KNFC) partners in the cashew processing industry and established relationship with its customer base, which would continue to support its steady business growth. The firm caters to customers in the domestic and export markets, comprising traders and food processors, with which the firm has a long association and gets repeat orders. The ratings continue to derive comfort from the established brand position of KNFC in the cashew processing segment, along with KNFC's established distribution network in the surrounding areas of Karnataka. Further, the firm's established track record of procurement from the African regions continues to be a key credit positive. The ratings also derive comfort from the adequate liquidity of the firm, which is supported by moderate working capital utilisation and nil repayment obligations.

The ratings continue to remain impacted by the firm's weakened financial profile, as reflected by a decline in revenues and losses incurred in FY2024 and the firm's vulnerability to volatility in raw cashew nut (RCN) and cashew kernel prices. The ratings also consider the continuous deterioration in KNFC's debt protection metrics in FY2024 owing to losses suffered in FY2024 as well, which though are likely to improve in FY2025. While the firm is gradually increasing its domestic sales, given the unfavourable export demand, the firm's revenues in FY2025 are likely to improve significantly with recovery in profitability, as per ICRA's estimates. The ratings also factor in the intense competition from Vietnam in the export market and from numerous processors in the domestic market, which affects the firm's pricing flexibility. Further, any adverse regulatory or quality-related risks could also impact the firm's business, as witnessed in the past. The ratings also consider the inherent risks associated with partnership firms, including the risk of capital withdrawals, as witnessed in the past.

The Stable outlook on the long-term rating reflects ICRA's opinion that KNFC will continue to benefit from its established market position and customer base developed over the years, through which the firm has been able to generate regular orders.

Key rating drivers and their description

Credit strengths

Experience of partners in cashew processing industry – The partners of KNFC have more than two decades of experience in the cashew processing industry. Further, the firm has established relationship with its suppliers, resulting in ease of procurement of RCNs.

Established track record with suppliers/customers and a diversified customer base – The firm sells processed cashew kernels mainly to a large and a diversified base of wholesalers in the domestic market. Over the past years, it has developed a strong relationship with several wholesale buyers in the domestic market, which is reflected in regular orders and increasing scale. The firm has healthy relationship with customers in the export market in countries like Japan, Germany, Switzerland, Kuwait, etc. While the exports stood at around 49% in FY2024, the same is expected to reduce to 10-15% in FY2025 as the firm is mainly focusing its sales in the domestic market owing to higher price realisations.

Credit challenges

Weakened financial profile owing to losses in the past two fiscals; on its way to recovery in the current fiscal – The firm's financial profile is marked with a small scale, which has remained stagnant during the recent years and losses suffered in both FY2023 and FY2024. Nevertheless, ICRA expects the entity's revenue and profitability to improve sharply in FY2025 on a YoY basis, as the firm has achieved revenues of Rs. 44.5 crore and profit of Rs. 8.4 crore in H1 FY2025. The debt protection metrics of the firm remain subdued, as reflected by a gearing of 1.7 times as on March 31, 2024 (2.2 times as on March 31, 2023), due to high working capital borrowings at the year-end. Further, interest coverage and DSCR remained low at -0.9 times and -0.4 times in FY2024 against -1.1 times and -1.0 times in FY2023, respectively. Moreover, the firm remains exposed to inventory related risks due to volatility in RCN and cashew kernel prices, as witnessed in FY2023 and FY2024. Nevertheless, ICRA believes that consequent to a likely improvement in profitability and working capital cycle in the current fiscal, the debt protection metrics are likely to improve in FY2025.

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. Moreover, the availability of RCNs is subject to agro-climatic risks. KNFC's operating margins remained low at -6.0% in FY2024 owing to a sharp decline in realisation. Considering a likely recovery in realisation in FY2025, the operating margin is likely to improve substantially on a YoY basis.

Intense competition with low product differentiation and value addition limit pricing flexibility – The firm faces stiff competition from many small units within Kerala as well as other nearby states. Further, the domestic players face competition from other countries in the export market. The industry is highly fragmented because of the low entry barriers owing to the low capital and technology intensive nature of operations. The industry is highly dependent on labour and is affected by labour shortage issues from time to time. Lack of product differentiation and intense competition restrict its bargaining position and pricing flexibility.

Risks related to partnership nature of the firm – KNFC is exposed to the risks related to a partnership firm, including the capital withdrawal risk. However, no capital withdrawal has been observed in the past two 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, as witnessed in past years, could impact its business as well as pricing strength.

Liquidity position: Adequate

KNFC's liquidity profile remains adequate, supported by a likely recovery in profitability in the current fiscal, which would result in positive fund flow from operations in FY2025. Absence of any major capital expenditure plan or term loan repayment obligation supports liquidity. Moreover, the average utilisation of the fund-based limits, which stood at 72% in FY2024, is likely to moderate in FY2025, leaving reasonable buffer for any urgent requirement. Additionally, the partners can infuse unsecured loans in case of any further fund requirement.

Rating sensitivities

Positive factors – The ratings may be upgraded if the firm demonstrates a healthy revenue growth along with an improvement in its profitability, working capital cycle and debt coverage indicators on a sustained basis.

Negative factors – Pressure on the ratings could arise if there is a decline in the firm’s revenue or profitability, leading to weak coverage indicators on a sustained basis. Moreover, any large capital withdrawal or an increase in the working capital intensity, leading to a deterioration in liquidity position, could trigger ratings downgrade. Specific credit metrics that could lead to a downgrade of KNFC’s ratings include an interest coverage of less than 1.5 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

Established in 1965, Kerala Nut Food Company manufactures plain cashew kernels from raw cashew nuts (RCNs). The firm imports its raw materials primarily from Africa (from countries like Guinea Bissau, Ivory Coast, Tanzania, Gambia and Benin) and Indonesia (small quantities procured from local players in Kerala as well), processes them in its twenty two manufacturing facilities in Kerala and Tamil Nadu having an aggregate installed capacity to process 77.6 lakh kg / year of RCN through job work, packs the processed cashew kernels and then exports the plain cashew kernels (without any value addition) primarily to, Japan, the UAE, Kuwait and other European countries.

Further, a portion of the cashew kernels produced is also sold locally. In the recent years, the company’s dependence on domestic sales have increased as the prices for broken cashew kernels is better in India than in export markets. In case the firm is not able to manufacture the required amount of cashew kernels, KNFC also buys processed cashew kernels from other local players and supplies them to its customers directly. The firm also trades in RCNs high seas and in the local markets apart from sale of other by products such as cashew husk, cashew nutshell oil, etc. in the local markets.

Key financial indicators (audited)

Kerala Nut Food Co.	FY2023	FY2024	H1 FY2025*
Operating income	63.3	56.5	44.5
PAT	(7.9)	(5.8)	8.4
OPBDIT/OI	-5.8%	-6.0%	23.4%
PAT/OI	-12.5%	-10.3%	18.8%
Total outside liabilities/Tangible net worth (times)	2.4	1.9	1.8
Total debt/OPBDIT (times)	(8.8)	(6.5)	1.7
Interest coverage (times)	(1.1)	(0.9)	6.0

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs. crore; * Provisional data

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Current rating (FY2025)			Chronology of rating history for the past 3 years			
	Type	Amount rated (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	
			Jan 24, 2025	Jan 04, 2024	Nov 07, 2022	Dec 28, 2021	
1 Interchangeable	Long-term	(7.00)	[ICRA]BB (Stable)	[ICRA]BB (Stable)	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)	
2 Fund Based	Short-term	50.00	[ICRA]A4+	[ICRA]A4+	[ICRA]A4+	[ICRA]A4+	
3 Interchangeable - Others	Short-term	(4.00)	[ICRA]A4+	[ICRA]A4+	[ICRA]A4+	[ICRA]A4+	
4 Interchangeable - Letter of credit	Short-term	(5.00)	[ICRA]A4+	[ICRA]A4+	[ICRA]A4+	-	

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term – Interchangeable	Simple
Short-term – Fund based	Simple
Short-term – Interchangeable – Others	Simple
Short-term – Interchangeable – Letter of credit	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	Cash credit*	NA	NA	NA	(7.00)	[ICRA]BB (Stable)
NA	EPC/PCFC	NA	4.6%	NA	50.00	[ICRA]A4+
NA	FBD*	NA	NA	NA	(4.00)	[ICRA]A4+
NA	Letter of credit*	NA	NA	NA	(5.00)	[ICRA]A4+

Source: Company; *Sub-limits of Rs. 50 crore short-term fund-based limit, Interchangeable

[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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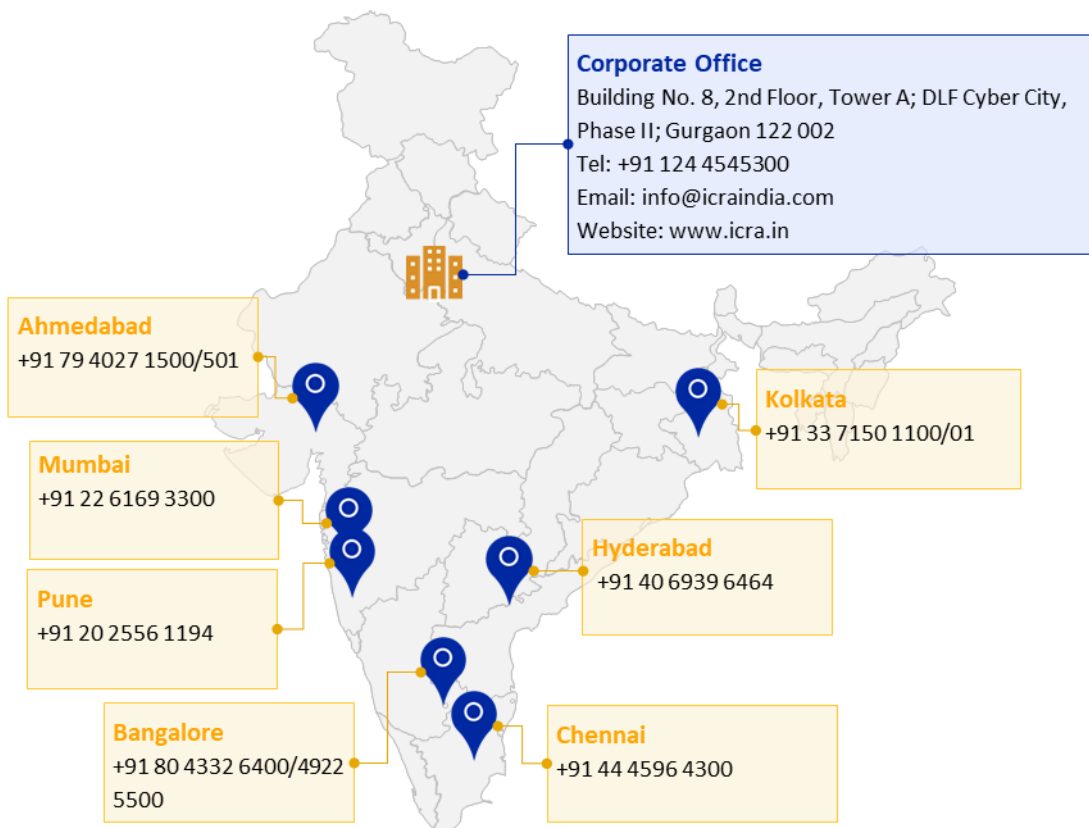
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