

September 27, 2021

## Uno Feeds: Rating reaffirmed

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term – Fund Based – CC	11.00	11.00	[ICRA]BB+ (Stable); reaffirmed
Unallocated – Long term	17.00	17.00	[ICRA]BB+ (Stable); reaffirmed
<b>Total</b>	<b>28.00</b>	<b>28.00</b>	

\*Instrument details are provided in Annexure-1

### Rationale

ICRA has taken a consolidated view of Navkiran Techno Feeds (NTF) and Uno Feeds (rated at [ICRA]BB+ (Stable)) for arriving at the rating on account of operational linkages between the two entities and the common management.

The rating continues to take into consideration the Group's established presence in the fish feed industry, resulting in a healthy relationship with customers and suppliers. Moreover, the Group has been selling fish feed under the established brand name of UNO, leading to healthy demand for its products. The Group witnessed a healthy operating margin of 10.8% in FY2021 on the back of cheaper availability of raw materials. However, the same is likely to witness some moderation in FY2022 because of an increase in prices of key raw materials. The operations of both the entities have now stabilised and returned to the previous levels. In FY2020, the operations of Uno Feeds were adversely impacted due to labour issues, which resulted in a significant decline in its turnover. Consequently, the orders were processed by Navkiran Techno Feeds because of which, the Group's performance remained stable, with a marginal impact. After the resolution of labour issues, the operations of both the entities have returned to the earlier levels. The rating is strongly supported by the Group's comfortable capital structure, with a gearing of 0.8 times as on March 31, 2021 and healthy debt protection metrics. Further, the Group's capital structure and coverage indicators are expected to remain comfortable. The location-specific advantage of the Group with the plant's proximity to the major aquaculture belt of Andhra Pradesh, continues to provide significant comfort to its business.

The rating, however, is constrained by the intense competition in the industry and exposure of margins to fluctuating raw material prices (soya and maize), which account for the major part of the cost of production. As per ICRA's estimates, high raw material prices are likely to result in a decline in the operating margins in FY2022, however, the same are likely to remain at a comfortable level. The Group's revenues are expected to be impacted in FY2022 due to subdued demand conditions owing to the Covid-19 pandemic and an increase in raw material prices. The Group continues to remain exposed to the inherent risks in the seafood industry, including susceptibility to diseases, climate change risks and Government policies. The risks associated with the partnership nature of business, including the risk of capital withdrawal, among others also impact the rating.

The Stable outlook on the [ICRA]BB+ rating reflects ICRA's opinion that the Group will continue to benefit from its established presence in the fish feed industry, resulting in a healthy relationship with the customers and suppliers. Going forward, the Group is likely to maintain its comfortable capital structure and healthy debt coverage indicators.

## Key rating drivers and their description

### Credit strengths

**Extensive track record of the Group** – The Group has extensive experience in the fish feed business, which enabled them to build strong customer and supplier base. Moreover, it has been selling fish feed under the established brand name of UNO, leading to healthy demand for its products. The Group's operations have been running smoothly post the resolution of the labor strike faced by one of the Group's entity- Uno Feeds, which was non-operational from April 2019 to September 2019.

**Favourable location of manufacturing units** – The Group's manufacturing units are located in Bhimavaram, is in the major aquaculture belt of Andhra Pradesh, providing regular and easy access to the raw materials at lower transportation costs.

**Comfortable capital structure and healthy debt coverage indicators** – The Group's capital structure remained comfortable, characterised by a gearing (total debt/tangible net worth) of 0.8 times as on March 31, 2021, supported by its strong net worth. The debt coverage indicators remained healthy with interest coverage of 4.3 times, total debt/OPBDITA of 1.6 times, NCA/total debt of 48.5% and DSCR of 4.3 times in FY2021. Going forward, the Group's capital structure and debt coverage indicators are expected to remain comfortable.

### Credit challenges

**Highly fragmented industry due to low entry barriers** – The Group faces stiff competition from other unorganised players in the absence of entry barriers, which limits its pricing flexibility and bargaining power with customers, thereby putting pressure on its revenues and margins.

**Inherent risks in seafood industry** – The Group is exposed to agro-climatic risks, wherein natural calamities such as floods and cyclones during the culture season can have serious impact on the prospects of successful culture. Despite the technical advancement, fish getting affected by virus cannot be ruled out.

**Exposure of Group's profitability to changes in key raw material prices** – The Group is exposed to the risk of fluctuations in the availability and prices of raw materials owing to its dependence on agricultural products. Besides, it does not enter into any forward contracts for purchasing raw materials from its suppliers. However, the Group's operating margins increased to 10.8% in FY2021 from 7.6% in FY2020 owing to lower raw material prices. While revenues are expected to be lower in FY2022 because of the Covid-19 pandemic, margins are likely to decline due to higher raw material prices in FY2022.

**Risks arising from partnership nature of the Group** – Given its constitution as a partnership firm, both NTF and Uno Feeds remain exposed to the possibility of capital withdrawal by the partners, as witnessed over the years.

### Liquidity position: Adequate

The Group's liquidity position is **adequate** with sufficient cushion (Rs. 9.0-10.0 crore) in working capital limits. It does not have any repayment obligations or major capital expenditure plans in the near term.

### Rating sensitivities

**Positive factors** – The rating could be upgraded if improved demand and realisations lead to a growth in the Group's scale of operations and accruals, coupled with comfortable debt metrics.

**Negative factors** – Pressure on the rating could arise if the Group's operational and financial profiles deteriorate significantly because of subdued demand. The rating could be downgraded if any substantial capital withdrawal results in lower accruals, impacting its liquidity. Specific credit metrics that could lead to a rating downgrade include reduction in interest coverage below 2.5 times on a sustained basis..

## Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">Financial Consolidation and Rating Approach</a>
Parent/Group Support	Uno Feeds draws support from the Group company because of business linkages
Consolidation/Standalone	For arriving at the ratings, ICRA has consolidated the financials of the two Group entities (as mentioned in Annexure-2), given the operational linkages and common management.

## About the company

Established as a partnership firm in 2008, Uno Feeds (Uno) manufactures floating fish feed through extrusion technology with an installed capacity of 96,000 MTPA. The firm's manufacturing facility is located at Bhimavaram, West Godavari district of Andhra Pradesh. The day-to-day operations of the firm are looked after by the partner, Mr. K. Radha Krishna Murthy.

In FY2021, on a provisional basis, the Group reported a net profit of Rs. 18.8 crore on an operating income (OI) of Rs. 251.9 crore (consolidated) compared to a net profit of Rs. 12.3 crore on an OI of Rs. 274.3 crore in the previous year.

## Key financial indicators

Uno Feeds	Consolidated		Standalone	
	FY2020	FY2021#	FY2020	FY2021#
Operating Income (Rs. crore)	274.3	251.9	62.3	121.1
PAT (Rs. crore)	12.3	18.8	0.9	8.9
OPBDIT/OI (%)	7.6%	10.8%	4.6%	9.9%
PAT/OI (%)	4.5%	7.5%	1.4%	7.4%
Total Outside Liabilities/Tangible Net Worth (times)	0.9	0.9	0.4	0.7
Total Debt/OPBDITA (times)	2.0	1.6	3.4	1.4
Interest Coverage (times)	3.3	4.3	2.4	5.2

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation  
#Provisionals

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

**Any other information: None**

## Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date and Rating	Date & Rating in		
						FY2021	FY2020	FY0219
						Sep 27 2021	Oct 06 2020	Sep 04 2019 Aug 10 2018
1	Fund Based/ CC	Long Term	11.0	--	[ICRA]BB+(Stable)	[ICRA]BB+ (Stable); removed from watch with negative implications	[ICRA]BB+; placed on watch with negative implications	[ICRA]BBB- (Stable)
2	Unallocated	Long Term	17.0	--	[ICRA]BB+(Stable)	[ICRA]BB+ (Stable); removed from watch with negative implications	[ICRA]BB+; placed on watch with negative implications	[ICRA]BBB- (Stable)

## Complexity level of the rated instrument

Instrument	Complexity Indicator
Long Term - Fund Based/ CC	Simple
Unallocated – Long term	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 analyzing 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, is available on ICRA's website: [www.icra.in](http://www.icra.in)

**Annexure-1: Instrument details**

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Long Term - Fund Based/ CC	NA	9.25%	NA	11.00	[ICRA]BB+ (Stable)
NA	Unallocated – Long term	NA	NA	NA	17.00	[ICRA]BB+ (Stable)

Source: Company; \*Proposed bank limits

**Annexure-2: List of entities considered for consolidated analysis:**

Instrument Name	Ownersh	Current Rating and Outlook
Uno Feeds	100.00%	Full Consolidation
Navkiran Techno Feeds	100.00%	Full Consolidation

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