November 29, 2021

Aachi Masala Foods Private Limited: Ratings reaffirmed and rated amount enhanced; outlook revised to Negative from Stable

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based Term Loan	76.13	95.72	[ICRA]BBB+ (Negative) reaffirmed; outlook revised to Negative from Stable
Long-term Fund-based Working capital facilities	168.00	168.00	[ICRA]BBB+ (Negative) reaffirmed; outlook revised to Negative from Stable
Long-term - Unallocated	3.82	-	-
Total	**247.95**	**263.72**	

**Instrument details are provided in Annexure-1*

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), Benny Product Private Limited (BPPL) and Aachi Special Foods Private Limited (Aachi Special), collectively referred to as the Aachi Group.

The ratings remain supported by the extensive experience of promoters in the manufacturing and distribution of masala powders and other related products spanning over two decades and the strong presence of the Aachi brand in its key markets. The Group's integrated structure covering the entire value chain from raw material procurement to end sales, its well-entrenched distribution network and established market position (primarily in South India), and the expanding footprint across non-South markets aided by its focussed marketing campaigns (wherein the revenues grew by ~11% in FY2021) continue to support the ratings.

The ratings, however, remain constrained by the inherent competitive intensity in the industry, which limits its pricing power, high geographical-concentration risks with ~75% of its revenues derived from a single market (Tamil Nadu) in FY2021 and average credit profile. The Group's financial profile is characterised by moderate profit margins (both at operating and net level) over the past few years due to pricing pressure, higher selling costs and interest expenses, given its high dependence on working capital loans and availment of long-term debt towards project capex and brand development purposes carried out in the recent years.

The revision in outlook to negative considers the likely deterioration in the consolidated credit profile with likely contraction in earnings due to elevated raw material prices and rising debt levels. The liquidity position of the group remains stretched with high working capital utilisation (averaging over 90% of sanctioned limits in the 12-months period ended September 2021) and minimal buffer in cash and bank balances. The business remains working capital-intensive, and this coupled with the moderate profit margins affects the liquidity profile. The Group's ability to improve the margins, earnings and working capital cycle will be critical for improving the debt coverage metrics and liquidity profile.

Key rating drivers and their description

Credit strengths

Extensive experience of promoter and strong brand equity: Aachi Group has established itself as a dominant player involved in processing and marketing of powdered spices, instant ready mixes, pickles, spices, whole wheat flour, oil, clarified butter, etc., mainly in the South Indian market. Aided by the extensive experience of promoter, Mr. Padmasingh Isaac, stable demand and the strong brand support, the Aachi Group's revenues grew at a compounded annual growth rate (CAGR) of 11.8% over the last six years ending as of FY2021. Going forward, the established brand image and expanding footprint across India is likely to support the revenue growth.

Integrated group structure and well-entrenched distribution network: The Group's operations are integrated, supporting its business profile and stability to earnings. Aachi Special is the raw material procurement arm of the Group. It procures raw materials like chillies, coriander, pepper, turmeric, cardamom, etc. through its traders at various centres and preserves the same in cold storage for onward supply to AMFPL, NFPL and ASFPL. AMFPL markets the products manufactured by the various Group concerns, including NFPL, ASFPL and BPPL. It also has a manufacturing division to meet the rising demand for the product it sells. The integrated nature of operations across the value chain supported by a well-entrenched distribution network aids in the Group's efficiency improvements and sales growth. AMFPL has a strong distribution network of 450 supreme stockists, 600 distributors, 5,000 agents and nearly 10 lakh retailers. The Group's diversified and affordable product range and wide distribution network have supported the stable sales volume and widespread product acceptance across geographies.

Expanding market presence with focussed marketing campaigns to aid revenue growth: At present, AMFPL generates ~75% of its revenues from the Tamil Nadu region (~78% in FY2020). However, the Group has been expanding its pan-India presence with greater focus in the non-South markets through aggressive marketing and advertisement campaigns, by virtue of which the Group posted ~11% YoY increase in revenues from non-South markets in FY2021. The increasing brand reach in the new markets, coupled with focused marketing campaigns via advertisements on TV and newspapers, are aimed at improving the Group's revenues going forward.

Credit challenges

Moderate financial profile: The Group's revenues witnessed stable growth in recent years supported by healthy demand for its products and improving geographical presence. However, its margins remain moderate restricted by the stiff competition from organised and unorganised players, resulting in limited pricing flexibility, rising advertisement and selling expenditure which is important to drive volumes and enter new markets. The net margins are also affected by the higher interest costs, given the working capital-intensive nature of business and rise in term loans availed for the capex incurred towards cold storage, brand development expenditure and land for godown construction. The margins are also vulnerable to unfavourable movement in commodity prices. In FY2022, the operating margins are likely to witness sharp contraction amidst sharp increase in Chilli prices and increase in freight expenses with rising fuel prices. That said, the revenues are expected to remain healthy in FY2022, supported by continued demand for food products. With increase in working capital borrowings and additional long-term debt availed for capex and general corporate purposes, the debt levels increased in recent years. With anticipated decline in earnings in FY2022 and debt levels expected to remain high amidst higher working capital borrowings and additional term loans availed, ICRA expects the debt metrics to moderate and remain higher than pre-pandemic levels. The Group's ability to improve the margins and working capital cycle will be critical for improving the debt coverage metrics.

High geographical-concentration risk : The Group continues to derive majority of its revenues from the southern states, especially Tamil Nadu (~75% of the revenues in FY2021), because of its wide distribution network and better visibility in the market. That said, with focused marketing campaigns in the non-South markets, aided by the launch of masala variants such as garam masala, rajma masala, and paneer butter masala, the geographical diversification is expected to improve over the medium to long term.

Stiff competition and working capital intensity: Aachi 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. Inherent to the nature of business, the Group's working capital intensity is moderately high as of March 2021; the Group procures raw materials in the bulk to gain price advantage during the stocking season (February to June). Going forward, the Group's ability to improve the working capital cycle and thereby, the liquidity position will be key monitorables.

Liquidity position: Stretched

The Group's liquidity position is stretched with relatively low buffer in cash and bank balances (which stood at Rs. 5.9 crore (consolidated) as on March 31, 2021) and average working capital utilisation (as a percentage of sanctioned limits) being high at over 90% for the 12 months period ended September 2021. In relation these sources of cash, the Group has debt repayments of Rs. 24.4 crore and capex commitments of Rs. 45-50.0 crore in FY2022 (to be funded through a mix of debt and internal accruals).

Rating sensitivities

Positive factors – Sustained growth in scale of operations and earnings, improved business diversification and better working capital management leading to improved liquidity position. Specific credit metrics that could lead to an upgrade of ratings include - a) interest coverage of more than 4.0 times and c) Total debt/OPBITDA less than 2.3x on a sustained basis.

Negative factors – Negative pressure on rating will emanate with sharp deterioration in earnings and / or stretch in working capital cycle impacting liquidity profile. Specific credit metrics that could lead to a downgrade of ratings include TOL / TNW exceeding 1.75x on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Approach - Consolidation
Parent/Group Support	Not applicable
Consolidation/Standalone	Consolidation: the ratings are based on the consolidated financial profile of Aachi Masala Foods Private Limited, Nazareth Foods Private Limited (rated [ICRA]BBB+ (Negative)), Aachi Spices and Foods Private Limited (rated [ICRA]BBB+ (CE) (Negative)/ [ICRA]A2 (CE)), Benny Product Private Limited (rated [ICRA]BB (Negative)) and Aachi Special Foods Private Limited (rated [ICRA]BBB- (Negative)/[ICRA]A3); all entities have strong strategic and operational interlinkages among them; the companies have different ownership structures under the family and function as separate legal entities in the similar line of business

About the company

AMFPL started as the marketing division of NFPL in December 2006 and now operates as the marketing arm for the Aachi Group. The Aachi Group has established presence in the food products industry of over a decade with presence of its various entities throughout the industry value chain from raw material procurement to end sales to customers. AMFPL also has a manufacturing facility at Gummidipoondi (Tamil Nadu), with an installed capacity of 140 tonne per day to process chilli powder, coriander powder and mixed spices. AMFPL sells masala products, instant ready mixes, pickles, spices, turmeric powder, whole wheat flour, oil, clarified butter, water bottles, etc through its established dealership network.

Key financial indicators – Aachi Group

Consolidated	FY2020 Audited	FY2021 Prov.
Operating Income (Rs. crore)	1,315.6	1,669.3
PAT (Rs. crore)	32.4	34.2
OPBDIT/OI (%)	8.6%	10.1%
PAT/OI (%)	2.5%	2.0%
Total Outside Liabilities/Tangible Net Worth (times)	1.5	1.9
Total Debt/OPBDIT (times)	3.1	2.8
Interest Coverage (times)	2.2	3.1

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

*Source: Company, ICRA Research; * Provisional numbers. All ratios as per ICRA calculations*

Key financial indicators - AMFPL

Standalone	FY2020 Audited	FY2021 Prov.
Operating Income (Rs. crore)	1315.4	1669.1
PAT (Rs. crore)	24.8	24.3
OPBDIT/OI (%)	5.9%	7.5%
PAT/OI (%)	1.9%	1.5%
Total Outside Liabilities/Tangible Net Worth (times)	1.1	1.3
Total Debt/OPBDIT (times)	2.4	1.9
Interest Coverage (times)	2.8	4.8

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 as of Mar 31, 2021 (Rs. crore)	Date & Rating in FY 2022		Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
					November 29, 2021	April 26, 2021	September 14, 2020	August 23, 2019	September 28, 2018
1	Fund based – Term Loan	Long-term	95.72	73.62	[ICRA]BBB+ (Negative)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)
2	Fund based – Working Capital facilities	Long-term	168.00	169.50	[ICRA]BBB+ (Negative)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)
3	Unallocated	Long-term	-	-	-	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	-
4	Non-fund based	Short term	-	-		-	-	[ICRA]A2; withdrawn	[ICRA]A2

Amount in Rs. crore

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term Fund-based – Term Loan	Simple
Long-term/ Short -term – Fund Based Working Capital	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: Click Here

Annexure-1: Instrument details

ISIN No/Banker Name	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (RS Crore)	Current Rating and Outlook
Axis Bank	Term loan	FY2018	NA	FY2025	11.91	[ICRA]BBB+ (Negative)
IndusInd Bank	Term loan	FY2020	NA	FY2029	25.55	[ICRA]BBB+ (Negative)
Siemens	Term loan	FY2017	NA	FY2022	0.79	[ICRA]BBB+ (Negative)
Mahindra Finance	Term loan	FY2021	NA	FY2026	25.00	[ICRA]BBB+ (Negative)
Doha Bank	Term loan	FY2021	NA	FY2026	5.98	[ICRA]BBB+ (Negative)
Kotak Mahindra Bank	Term loan	FY2021	NA	FY2026	3.99	[ICRA]BBB+ (Negative)
IDFC First Bank	Term loan	FY2022	NA	FY2026	12.90	[ICRA]BBB+ (Negative)
State Bank of India	Term loan	FY2022	NA	FY2026	9.60	[ICRA]BBB+ (Negative)
IDFC Bank	Cash Credit	FY2019	NA	NA	30.00	[ICRA]BBB+ (Negative)
Kotak	Cash Credit	FY2020	NA	NA	20.00	[ICRA]BBB+ (Negative)
Doha Bank	Cash Credit	FY2019	NA	NA	30.00	[ICRA]BBB+ (Negative)
IndusInd Bank	Cash Credit	FY2020	NA	NA	40.00	[ICRA]BBB+ (Negative)
State Bank of India	Cash Credit	FY2020	NA	NA	48.00	[ICRA]BBB+ (Negative)

Source: *Company*

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Aachi Masala Foods Private Limited	NA	Full Consolidation
Nazareth Foods Private Limited	NA	Full Consolidation
Aachi Spices and Foods Private Limited	NA	Full Consolidation
Benny Product Private Limited	NA	Full Consolidation
Aachi Special Foods and Private Limited	NA	Full Consolidation

Source: *Company*

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