

May 30, 2022

## India Food Exports: Ratings downgraded; outlook revised to 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	17.50	17.50	[ICRA]BB+(Stable); rating downgraded from [ICRA]BBB-, outlook revised to stable from negative
Short term – Fund based facilities	140.50	226.50	[ICRA]A4+; rating downgraded from [ICRA]A3 and assigned for the enhanced limits
<b>Total</b>	<b>158.00</b>	<b>244.00</b>	

\*Instrument details are provided in Annexure-1

### Rationale

The ratings downgrade reflects the elongated working capital cycle of India Food Exports (IFE) due to high inventory and debtor levels, which resulted in a stretched liquidity position. The liquidity is also impacted by the firm's limited profitability and cash accruals against the large repayments due in FY2023. Moreover, the firm's profitability remains susceptible to fluctuations in the prices of raw cashew nut (RCN) and cashew kernel. The ratings are also impacted by IFE's moderate financial risk profile, as reflected by its low net worth base and depressed debt coverage indicators. As per ICRA's estimates, IFE's liquidity would remain under pressure in the near term on account of the relatively lower profitability, elongated working capital cycle and large repayments. The ratings continue to remain constrained by the vulnerability of the firm's profitability to fluctuations in foreign exchange rates. However, the same is mitigated to an extent by the natural hedge provided through imports and hedging via booking of forward contracts. The ratings also factor in the stiff competition in the cashew industry and the inherent risks associated with the partnership nature of the business, including the risk of capital withdrawal, among others.

The ratings, however, continue to factor in the extensive experience of IFE's partners in the cashew processing industry for over three decades, which supports its growth prospects. The ratings also derive comfort from the long-term relationship of the firm with its customers, ensuring repeat orders. The location of its manufacturing facilities in Tamil Nadu and Andhra Pradesh supports the firm's margins to an extent as the employee cost is relatively lower than other states in the region.

The Stable outlook on the [ICRA]BB+ rating reflects ICRA's expectation that the firm would continue to register a steady revenue growth while maintaining stable profitability, supported by the increase in demand, and extensive experience of the partners in the cashew industry.

### Key rating drivers and their description

#### Credit strengths

**Extensive experience of the promoter** – The Managing Partner, Mr. Satheesh Nair has an experience of over three decades in the cashew processing industry. The extensive experience of the promoter partner supports the firm's growth prospects.

**Strong ties with customers ensure repeat orders** – The firm’s presence in the industry since 1981 has enabled it in establishing strong ties with its key customers, which resulted in repeat orders. Additionally, regular supply of high-quality cashew to the quality conscious Japan market helps in maintaining comfortable realisations.

**Strategic location of the manufacturing facilities** – The firm has strategically established its manufacturing facilities in Tamil Nadu and Andhra Pradesh instead of Kerala, considering higher employee expenses in the state, which supports its margins to an extent.

## Credit challenges

**Susceptibility of profit margins to fluctuations in RCN and cashew kernel prices** – The firm’s margins have fluctuated over the years due to variation in RCN and cashew kernel prices. While reduction in RCN prices in the past years has supported its margins, sustainability of the same remains to be seen.

**Moderate financial profile with stretched working capital cycle** – The firm’s financial profile is marked with limited profitability, stretched liquidity and high working capital intensity. The gearing stood at 1.9 times as on March 31, 2022 due to high working capital borrowings at the year-end. Further, interest coverage and DSCR also moderated to 2.9 times and 1.3 times in FY2022, against 3.1 times and 2.7 times in FY2021, respectively. The inventory as well debtor levels of the firm remained elevated, as reflected by a high working capital intensity of around 58% in FY2022.

**Exposure to fluctuations in foreign exchange rates** – The firm mainly exports to countries such as Japan, Spain etc, which exposes it to foreign currency fluctuations. However, the same is mitigated to an extent by the natural hedge provided through imports and hedging via booking of forward contracts.

**Intense competition in domestic and international markets** – The domestic cashew industry is highly fragmented with the presence of many unorganised players, owing to low entry barriers. Indian exporters face intense competition from the Vietnamese processors that enjoy cost advantage on account of cheaper labour and mechanised processing. Intense price competition, along with low product differentiation, limits the firm’s pricing flexibility.

**Risks inherent to partnership nature of IFE** – IFE is exposed to risks associated with the partnership firms including the risk of capital withdrawal, which might adversely impact the capital structure.

## Liquidity position: Stretched

IFE’s liquidity position is **stretched** with limited cash balance maintained by the firm during the year. Moreover, given the expected pressure on its profitability in FY2023, elongated working capital cycle, and large repayments due in FY2023, the firm’s liquidity would remain stretched. However, the unutilised working capital borrowings would provide buffer to a certain extent for meeting any contingencies. The average utilisation of the working capital limits stood at a moderate level of 59% during the last 12-month period ending in January 2022 with a working capital intensity of around 58% in FY2022. The firm’s liquidity would remain exposed to the risk of capital withdrawal, given the partnership nature of the firm.

## Rating sensitivities

**Positive factors** – The ratings could be upgraded if there is an improvement in the firm’s working capital cycle and profitability, leading to a comfortable liquidity position on a sustained basis.

**Negative factors** – Pressure on the ratings could arise if there is any significant decline in the scale of operations or profitability, leading to weaker coverage indicators. Also, any large capital withdrawal or a significant increase in the working capital intensity, leading to a tightened liquidity position, can trigger ratings downgrade. Specific credit metrics that may trigger ratings downgrade include TOL/TNW (total outside liabilities/Tangible Net Worth) of more than 2.5 times on a sustained basis.

## 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 company's standalone financial profile.

## About the company

IFE was established by Mr. Satheesh Nair in 1981 as a partnership firm in Kollam, Kerala. The firm primarily processes cashew kernels from RCNs. The firm imports RCNs from African countries (including Ivory Coast, Gambia and Senegal) and processes the same in its manufacturing facilities in Tamil Nadu and Andhra Pradesh. Nearly two third of cashew kernels are exported, with Japan and middle-eastern countries being the major export destinations. The rest are sold in domestic markets as plain cashew kernels or value-added cashew kernels (dry roasted, oil roasted, salted or flavoured cashews) under the brand name, Delinut and Delis. Besides, the product portfolio of the firm in domestic markets consists of other nuts including pistachios and almonds. It also trades in RCNs and sells other by-products of cashews including cashew nut-shell liquid, cashew husk and cashew shell cake, among others.

In FY2021, the firm reported a net profit of Rs. 3.5 crore on an operating income (OI) of Rs. 163.0 crore compared to a net profit of Rs. 13.4 crore on an OI of Rs. 244.4 crore in the previous year.

### Key financial indicators (audited)

IFE Standalone	FY2020	FY2021	FY2022*
Operating Income (Rs. crore)	244.4	163.0	228.9
PAT (Rs. crore)	13.4	3.5	7.6
OPBDIT/OI (%)	12.7%	7.9%	8.7%
PAT/OI (%)	5.5%	2.2%	3.3%
Total Outside Liabilities/Tangible Net Worth (times)	1.1	1.5	2.1
Total Debt/OPBDITA (times)	1.3	5.4	5.5
Interest Coverage (times)	5.7	3.1	2.9

Source: Firm and ICRA Research; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

\*Provisional statement

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

### Any other information: None

## Rating history for past three years

S. No.	Instrument	Current Rating (FY2023)				Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date and Rating		Date & Rating		
							FY2022	FY2021	FY2020
					May 30, 2022	Apr 06, 2022	May 11, 2021	Apr 16, 2020	-
1	Fund based – Term loan	Long-term	17.50	17.25	[ICRA]BB+ (Stable)	[ICRA]BBB- (Negative)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	-
2	Fund based facilities	Short-term	226.5	--	[ICRA]A4+	[ICRA]A3	[ICRA]A3	[ICRA]A3	-

&= Under watch with developing implications

## Complexity level of the rated instrument

Instrument	Complexity Indicator
Long-term fund-based – Term Loan	Simple
Short-term – Fund based facilities	Very 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, 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	Fund based – Term Loan	April 2020	7.25%	April 2024	12.25	[ICRA]BB+(Stable)
NA	Fund based – Term Loan	April 2020	7.25%	April 2024	5.25	[ICRA]BB+(Stable)
NA	Fund based/Short term – PCH	NA	NA	NA	203.00	[ICRA]A4+
NA	Fund based/Short term – FBN/FBP	NA	NA	NA	10.00	[ICRA]A4+
NA	Fund based/Short term – SOD	NA	NA	NA	0.50	[ICRA]A4+
NA	Fund based/Short term – PCH/FCPC	NA	NA	NA	13.00	[ICRA]A4+

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

**Annexure-2: List of entities considered for consolidated analysis: Not Applicable**

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