

January 17, 2023

Bluejay Nuts Private Limited: [ICRA]BB+ (Stable)/ [ICRA]A4+ assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long-term/Short-term Unallocated Limits	40.00	[ICRA]BB+ (Stable)/[ICRA]A4+; assigned
Total	40.00	

*Instrument details are provided in Annexure-1

Rationale

The ratings assigned to Bluejay Nuts Private Limited (BJNPL) factor in the long experience of the promoter in the cashew business and the established relationships with key customers, which generate repeat orders. The ratings also take into consideration BJNPL's comfortable capital structure (TD/TNW) and strong debt coverage indicators although TOL/TNW remains high due to significant dependence on creditor funding.

The ratings, however, remain constrained by the susceptibility of BJNPL's profit margins to fluctuations in raw cashew nut (RCN) and cashew kernel prices. The ratings are also impacted by BJNPL's exposure to stiff competition in the domestic and export markets, which along with the lack of product differentiation limits its pricing flexibility. The company also remains exposed to foreign exchange rate fluctuation risk in the absence of any formal hedging policy as around 90% of its raw materials is met through imports. Nevertheless, export sales, which contributed only 15% to the operating income in FY2022, provide natural hedge to some extent.

The Stable outlook on the [ICRA]BB+ rating reflects ICRA's opinion that BJNPL will continue to scale up its business while maintaining profitability levels.

Key rating drivers and their description

Credit strengths

Extensive experience of promoters in the cashew industry – Mr. Venketesan Muthukrishnan, the promoter of BJNPL, has been involved in the cashew business for more than three decades. This has enabled the company to scale up operations in a short span of time. The promoter family also has other cashew entities in India and abroad.

Established relationships with customers ensure repeat orders – The company caters to customers in the domestic as well as export markets and its clients comprise food processors and traders. BJNPL has built established relationships with customers since commencement of operations, leading to repeat orders, which also reflect its acceptable product quality.

Financial risk profile characterised by comfortable capital structure and strong debt coverage indicators; however, TOL/TNW remains high – BJNPL's debt profile comprised a Rs. 0.2-crore vehicle loan as on March 31, 2022. Low reliance on external borrowings has kept the capital structure of the company at a comfortable level over the years as also reflected by a gearing of 0.01 times as on March 31, 2022. The coverage indicators also remain strong as demonstrated by an interest coverage and NCA/TD of ~35 times and ~1570%, respectively, in FY2022. However, TOL/TNW, stood at a high level of 3.1 times as on March 31, 2022 given the significant dependence on creditor funding. BJNPL procures around 70% of its raw material requirements from one of its Group entities (Royal Nuts Pte Limited), from which it enjoys extended credit period that results in high creditor levels. ICRA expects BJNPL's coverage and leverage indicators to moderate to an extent in the near-to-medium term if the

company avails bank loans, which it is contemplating, to reduce its dependence on creditor funding. However, it is still expected to remain at comfortable levels.

Credit challenges

Susceptibility of profit margins to fluctuations in RCN and cashew kernel prices – BJNPL’s profit margins are exposed to fluctuations in RCN and cashew kernel prices, which are driven by agro-climatic conditions, quality of the crop and demand-supply conditions.

Intense competition in domestic and international markets – The domestic cashew industry is highly fragmented, owing to low entry barriers. Further, Indian exporters face intense competition from Vietnamese processors, which enjoy cost advantage because of mechanised processing. Intense competition and low product differentiation limit the company’s pricing flexibility, thereby exerting pressure on its margins.

Exposure to foreign exchange fluctuations – The company meets around 90% of its raw material requirements through imports. This exposes the company to adverse movements in forex rates given that it has no formal hedging policy in place. Nonetheless, ICRA notes that export sales, which accounted for 15% of the operating income in FY2022, act as a natural hedge to an extent.

Liquidity position: Adequate

BJNPL’s liquidity position is expected to remain adequate. The company’s cash flow from operations stood at Rs. 5.9 crore in FY2022 (negative Rs. 2 crore in FY2021). The company is likely to spend Rs. 7 crore on new machinery in Q4 FY2023 or in Q1 FY2024, which is expected to be funded through a mix of term loans (~Rs. 4 crore) and internal accruals (~Rs. 3 crore). However, with around 70% of its raw material requirements sourced from a Group entity, it enjoys flexible credit terms, thereby easing the pressure on its cash flows.

Rating sensitivities

Positive factors – ICRA could upgrade BJNPL’s ratings if there is a substantial improvement in earnings, resulting in strengthening of its net worth position and liquidity.

Negative factors – Pressure on BJNPL’s ratings may arise if a significant deterioration in earnings and/or any large unanticipated debt-funded capital expenditure plan exerts pressure on its liquidity. Specific metrics that could lead to a downgrade include TOL/TNW of more than 2.7 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	NA.
Consolidation/Standalone	The ratings are based on the standalone financial statements of BJNPL.

About the company

Incorporated in 2015, BJNPL is involved in the processing of cashew kernel and trading of raw cashew nuts. The operations started in March 2019. It has a raw cashew nut processing capacity of around 11,500 MTPA. BJNPL does not have its own brand and is a 100% B2B player. BJNPL's customers comprise traders to food processing companies. Around 70% of its raw material requirement is met from Royal Nuts Pte Limited, a Group entity.

Key financial indicators (Audited)

	FY2021	FY2022
Operating income (Rs. crore)	122.5	103.1
PAT (Rs. crore)	1.0	3.1
OPBDIT/OI	0.6%	5.5%
PAT/OI	0.8%	3.0%
Total outside liabilities/Tangible net worth (times)	1.8	3.1
Total debt/OPBDIT (times)	0.7	0.0
Interest coverage (times)	4.2	35.0

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	Type	Current rating (FY2023)		Chronology of Rating History for the past 3 years			
		Amount rated (Rs. crore)	Amount outstanding as of Mar 31, 2022 (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020
1	Unallocated Limits	40.00	--	Jan 17, 2023 [ICRA]BB+ (Stable)/ [ICRA]A4+	--	--	--

Complexity level of the rated instruments

Instrument	Complexity Indicator
Unallocated Limits	NA

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
--	Unallocated Limits	NA	NA	NA	40.00	[ICRA]BB+ (Stable)/ [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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