

October 06, 2023

## Aachi Masala Foods Private Limited: Ratings reaffirmed; 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	90.25	113.77	[ICRA]BBB+(Stable); reaffirmed and assigned for enhanced amount
Long-term Fund-based – Working capital	168.00	195.20	[ICRA]BBB+(Stable); reaffirmed and assigned for enhanced amount
Long-term – Unallocated	5.47	7.32	[ICRA]BBB+(Stable); reaffirmed and assigned for enhanced amount
<b>Total</b>	<b>263.72</b>	<b>316.29</b>	

\*Instrument details are provided in Annexure-I

### 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') and Aachi Special Foods Private Limited ('Aachi Special'), collectively referred to as the Aachi Group ('the Group').

The rating continues to factor the stable credit profile of the group and ICRA's expectation of a stable performance going forward supported by strong presence of the "Aachi" brand in its key markets and extensive experience of the promoters in the manufacturing and distribution of masala powders and other related products spanning over two decades. The rating also favourably considers 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 in South India, and as well as its expanding footprint across other domestic and export markets. ICRA also notes that the Group has completed its investments of over Rs. 80.0 crore (spent during FY2021–Q1 FY2024) based on its application for the Government's Production Linked Incentive (PLI) scheme for the food processing industry and has also started receiving subsidy under the scheme from FY2023. While this has resulted in an increase in overall debt for the Group, the same is expected to scale up its operation over the medium term.

The rating, however, also factors the inherent competitive intensity in the industry, which limits its pricing power, and high geographical concentration risk with around 74% of its revenues derived from a single market (Tamil Nadu) in FY2023 although its presence in markets beyond Tamil Nadu is increasing. The Group's financial profile is characterised by moderate profit margins due to pricing pressure, higher selling and advertisement costs, and interest expenses. AMFPL has high dependence on working capital loans and has availed long-term debt towards project capex including for PLI and brand development in the past, thus resulting in moderate coverage and leverage levels despite equity infusions from the promoter in FY2023 and Q1 FY2024. The consolidated net debt to OPBDITA, interest cover and net outside liabilities to tangible net worth was 4.1 times, 2.3 times and 1.7 times, respectively, as of March 2023. However, the debt metrics are likely to improve, supported by expected improvement in cash accruals and absence of any significant debt-funded capex plans over the near to medium term.

### Key rating drivers and their description

#### Credit strengths

**Extensive experience of promoter and strong brand equity** – The Aachi Group has established itself as a dominant player in the processing and marketing of powdered spices, instant mixes, pickles, spices, whole wheat flour, oil, clarified butter, etc, mainly in the South Indian market. Aided by the extensive experience of its promoter, Mr. Padmasingh Isaac, stable demand

and the strong brand support, the Group's revenues grew at a compounded annual growth rate (CAGR) of 12% over the last four years ending in FY2023. Going forward, its established brand image and expanding footprint across India are likely to support the revenue growth. Further, the promoter has infused an equity of Rs. 34.5 crore in FY2023<sup>1</sup> and Rs. 14.4 crore in Q1 FY2023 to fund the company's expansion plan under the PLI scheme.

**Integrated Group structure and well-entrenched distribution network** – The Group's operations are integrated, supporting its business profile and stability in earnings. Aachi Special is the raw material procurement arm of the Group. It procures raw materials like chillies, coriander, pepper, turmeric, cardamom, etc, and preserves them in cold storage facilities for onward supply to AMFPL, NFPL and ASFPL. AMFPL markets the products manufactured by the Group, including NFPL and ASFPL. It also has a manufacturing division to meet the rising demand for its products. The integrated nature of operations across the value chain supported by a well-entrenched distribution network aids the Group's efficiency improvements and sales growth. AMFPL has a strong distribution network of seven supreme distributors, 3,500 direct distributors and over 12 lakh retailers/ outlets. The Group's diversified and affordable product range along with its distribution network have supported its stable sales volume and widespread product acceptance across geographies.

**Expanding market presence with focussed marketing campaigns to aid revenue growth** – In FY2023, AMFPL generated ~74% of its revenues from Tamil Nadu, which has remained broadly stable in recent years. The Group has been expanding its presence pan India, with greater focus on domestic markets other than the southern region, through marketing and advertisement campaigns. In addition, the company has also set up new warehouse depots in markets other than South India to increase its product penetration. The same is expected to support the Group in market penetration in the new geographies over the medium term. The increasing brand reach in the new markets, coupled with focused marketing campaigns via media advertisements are aimed at improving the Group's revenues, going forward.

## Credit challenges

**Moderate financial profile** – The Group's revenue witnessed a healthy growth of ~30% to Rs. 1,755.2 crore in FY2023 aided by market penetration across geographies especially in Andhra Pradesh and Karnataka and new product launches across markets. The Group's operating income in Q1 FY2024 stood at Rs. 423.9 crore. The consolidated operating margin contracted in FY2023 to 9.0% from 10.4% in FY2022 because of higher raw material and selling costs; although the increase in realisations in FY2023 helped the company to partially pass along the increase in raw material prices. The margins remain moderate, restricted by the stiff competition from organised and unorganised players, resulting in limited pricing flexibility and rising advertisement and selling expenditure, which are critical to enter new markets. The margins are also vulnerable to any large unfavourable movement in commodity prices. AMFPL has high dependence on working capital loans and has availed long-term debt towards project capex including for PLI and brand development in the recent past, resulting in increase in borrowings. The consolidated net debt to OPBDITA, interest cover and net outside liabilities to tangible net worth was 4.1 times, 2.3 times and 1.7 times, respectively, as of March 2023. However, the debt metrics are likely to improve, supported by improvement in accruals and the absence of any significant debt-funded capex plans over the near to medium term.

**High geographical-concentration risk** – The Aachi Group continues to derive most of its revenues from the southern states, especially Tamil Nadu (~74% of revenues in FY2023), because of its wide distribution network and better visibility in the region. However, with focused marketing campaigns in other regional markets, aided by the launch of new, ready-to-cook and ready-to-eat variants, the Group's geographical diversification is expected to improve over the medium to long-term.

**Stiff competition and high working capital intensity** – The 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 its business, the Group's working capital intensity was moderately high with an NWC/OI of 46.4% in FY2023. The Group procures raw materials in bulk to gain price advantages during the stocking season (February to June).

<sup>1</sup> Rs. 26.5 crore in AMFPL and Rs. 8.0 crore in Aachi Special in FY2023; and Rs. 14.4 crore in AMFPL in Q1 FY2024.

Going forward, the Group's ability to improve the working capital cycle and, thereby, the liquidity position will be a key monitorable.

## Liquidity position: Adequate

The Aachi Group's liquidity position is expected to remain adequate supported by stable cash flow from operations. While the working capital utilisation remains high in excess of 90% on a standalone basis, the average utilisation at the Group level stood at 86% of sanctioned limits in the last 12 months ended in June 2023. Further, the Group has free cash and bank balances of Rs. 7.1 crore, of which AMFPL has Rs. 6.8 crore as on June 30, 2023. Against that, the Group has a consolidated principal repayment of Rs. 31.82 over Q2-Q4 FY2024, Rs. 43.76 crore for FY2025 and Rs. 33.52 crore for FY2026 on its existing loans. ICRA expects the same to be serviced comfortably from its cash flow for operations even as liquid cash balances are minimal.

## 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 interest coverage of more than 4.0 times and Total debt/OPBITDA less than 2.3x on a sustained basis.

**Negative factors** – Negative pressure on the rating will emanate with sharp deterioration in earnings and / or stretch in working capital cycle impacting the 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	<a href="#">Corporate Credit Rating Methodology</a>
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+ (Stable)), Aachi Spices and Foods Private Limited (rated [ICRA]BBB- (Stable)/ [ICRA]A3) and Aachi Special Foods Private Limited (rated [ICRA]BBB- (Stable)/[ICRA]A3). All entities share strong strategic and operational inter-linkages among themselves. The companies have different ownership structures under the family and function as separate legal entities in the same business sector.

## 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 Group has enjoyed an established presence in the food products industry for over a decade with its various entities operating throughout the industry value chain—from raw material procurement to end sales. The Group has five manufacturing facilities in and around Chennai, with a total installed processing capacity of 280 metric tonnes per day (MTPD) for chilli powder, coriander powder and mixed spices. AMFPL sells masala products, instant 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 (provisional)	FY2022	FY2023
Operating income (OI)	1,359.2	1,755.2
PAT	21.4	44.4
OPBDIT/OI %	10.4%	9.0%
PAT/OI %	1.6%	2.5%
Total outside liabilities/Tangible net worth (times)	1.6	1.8
Total debt/OPBDIT (times)	3.4	4.1
Interest coverage (times)	2.4	2.3

Amount in Rs crore; Source: Company; ICRA Research. The numbers are provisional and consolidated by ICRA. Hence, the financial ratios in this document are ICRA adjusted figures and may not be directly comparable with results reported by the company in some instances; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; total debt includes lease liabilities.

### Key financial indicators – Aachi Masala

Standalone	FY2022 (Audited)	FY2023 (Provisional)
Operating income (OI)	1,642.5	2,037.2
PAT	8.8	28.2
OPBDIT/OI %	5.1%	4.5%
PAT/OI %	0.5%	1.4%
Total outside liabilities/Tangible net worth (times)	1.6	1.3
Total debt/OPBDIT (times)	3.3	3.7
Interest coverage (times)	2.8	2.8

Amount in Rs crore; Source: Company; ICRA Research. Financial ratios in this document are ICRA adjusted figures and may not be directly comparable with results reported by the company in some instances; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; total debt includes lease liabilities.

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

### Any other information: None

### Rating history for past three years

Current rating (FY2024)					Chronology of rating history for the past 3 years				
Instrument	Type	Amount rated (Rs. crore)	Amount outstanding as of June 30, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022		Date & rating in FY2021	
				Oct 06, 2023	Dec 05, 2022	Nov 29, 2021	Apr 26, 2021	Sep 14, 2020	
1 Term loans	Long term	113.77	113.77	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Negative)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	
2 Fund-based working capital facilities	Long term	195.20	-	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Negative)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	
3 Unallocated	Long term	7.32	-	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	-	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	

## Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term Fund-based – Term loan	Simple
Long-term Fund-based – working capital	Simple
Long-term – Unallocated	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
NA	Term loan – I	FY2020/FY2023	9.5-10.75%	FY2028/FY2029	47.32	[ICRA]BBB+ (Stable)
NA	Term loan – II	FY2022/FY2023	10.55-12.05%	FY2026-FY2029	21.78	
NA	Term loan – III	FY2023	10.40%	FY2029	15.00	
NA	ECLGS – I	FY2022	7.85%	FY2027	4.14	
NA	ECLGS – II	FY2021	9.25%	FY2026	2.74	
NA	ECLGS – III	FY2022	9.25%	FY2027	10.48	
NA	ECLGS – IV	FY2022	9.25%	FY2027	12.31	
NA	Cash Credit – I	NA	10.35%	NA	30.00	
NA	Cash Credit – II	NA	11.00%	NA	40.00	
NA	Cash Credit – III	NA	9.00%	NA	40.00	
NA	Cash Credit – IV	NA	11.45%	NA	55.20	
NA	Cash Credit – V	NA	9.75%	NA	30.00	
NA	Unallocated	NA	NA	NA	7.32	

Source: Company; Note: The interest rates are based on outstanding debt as on June 30, 2023

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

## Annexure II: 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
Aachi Special Foods Private Limited	NA	Full Consolidation

Source: Company

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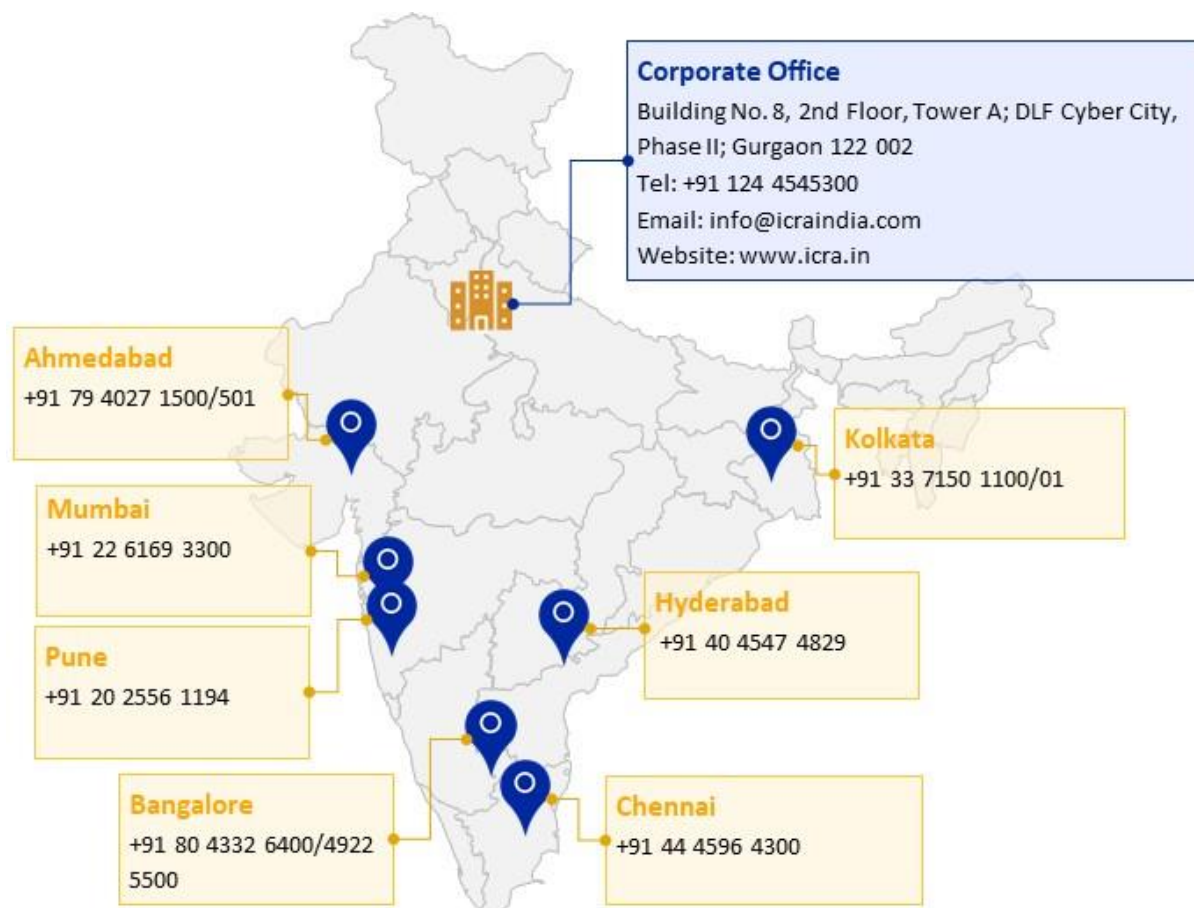


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