

Rating Rationale

21 Oct 2019

NG Feeds Private Limited

Brickwork Ratings reaffirms/assigns the rating for the bank loan facilities of Rs. 70.90 Crore of NG Feeds Private Limited ('NFPL' or 'the company')

Particulars

Facilities	Amount (Rs. Crs)		Tenure	Ratings*	
	Previous	Present		Previous	Present
Fund Based					
Cash Credit	27.00	27.00	Long Term	BWR BB/Stable	BWR BB/Stable Reaffirmed
Term Loans	14.23	13.90			
Suppliers credit	-	30.00		-	BWR BB/Stable Assigned
Total	41.23	Rs. 70.90 Crore (Rupees Seventy Crore Ninety Lakh Only)			

* Please refer to BWR website www.brickworkratings.com/ for definition of the ratings

Note: Details of Bank facilities are provided in Annexure I

Ratings Action/Outlook

The reaffirmation of ratings continues to draw comfort from the experience of the promoters in the organic fertilizers and feed business, operational synergies from the group companies [NG Fertilizers and Chemicals Private Limited & N G Phosphates Private Limited] and locational advantages with manufacturing unit's proximity to the major aquaculture belt of Andhra Pradesh. However, the ratings remain constrained by limited track record of operations and working capital intensive operations due to elongated receivables cycle. The rating is also constrained by the highly fragmented aqua industry with low entry barriers and intense competition from organized and unorganized players. The rating considers the company's concentration in Andhra Pradesh in terms of sales, susceptibility of revenues to diseases outbreaks and agor-climatic risks, vulnerability of margins to raw material prices and shrimp prices and government policies.



The 'Stable' outlook indicates a low likelihood of rating change over the medium term. BWR expects that **NG Feeds Private Limited's** business risk profile will be maintained over the medium term. The outlook may be revised to 'Positive' if the company records significantly better-than-expected revenue and profitability and improved working capital management, resulting in better debt coverage metrics and liquidity profile. The outlook may be revised to 'Negative' if the company reports significantly lower than expected performance, resulting in lower than estimated coverage indicators and a weaker liquidity position. Further, any major debt-funded expenditure resulting in deterioration in capital structure and debt coverage indicators and/or a sharp reversal in industry operating conditions may exert a downward pressure on the ratings.

Key Rating Drivers

Credit Strengths:

- **Experienced management and operational synergies with group companies:** The promoters of NFPL, through their group entities, NG Fertilizers and Chemicals Private Limited and N G Phosphates Private Limited [engaged in organic fertilizers and feeds manufacturing businesses] have over five years of experience in the organic fertilizers and feeds business. BWR believes that the company benefits from the promoters' understanding of the dynamics of the business and established relationships with customers and suppliers. NG Feeds Private Limited benefits from the established brand and distribution network of the Group concerns, which supports its existing network of nearly 90 distributors across South India.
- **Favorable location of the company's facilities:** The manufacturing plant is located in Krishna district which is in a major aqua-culture belt of Andhra Pradesh and enables regular and easy access to the raw materials at lower transportation costs. NFPL sell its fish feeds under registered brand 'Natpro' and Shrimp Feeds under registered brand 'Crevette' which are available in 35 kg packages.
- **Moderate financial risk profile:** NFPL's commercial operations started from June 2018, and it has achieved a revenue of Rs 139.03 crore with PAT of Rs. 4.28 crore in FY19. Profitability margins were modest, reflected by operating margin of 10.53% and net margin of 3.08% for FY19. Tangible net worth was modest at Rs. 23.77 crore as on 31st March 2019. Gearing was high reflected by Total debt/Tangible net worth at 3.30 times as on 31st March 2019. Debt servicing metrics were adequate reflected by ISCR and DSCR of 3.84 times and 3.38 times respectively as on 31st March 2019.

Credit Challenges:

- **Limited track record and small scale of operations:** The company's first year of



operations was FY19 and hence, the scale of operations is modest. Going forward, the company's ability to benefit from economies of scale would be a key factor for its growth.

- **Geographical concentration risk:** The company generates significant revenue by sale of fish feed and shrimp feed in Andhra Pradesh [*mainly in East Godavari, Krishna and West Godavari*], exposed to high geographical concentration risk.
- **Inherent risks in the sea food industry:** The aqua culture activity is dependent on climatic conditions prevailing every season which are unpredictable. Natural calamities like floods, cyclones during the culture season can have serious impact on the prospects of successful culture. Despite technical advancement, the possibility of fish and shrimp getting affected by virus or diseases exists. Also, any change in government policies will have an impact on the demand for the company's products.
- **Exposure to raw material price fluctuations:** The company is exposed to raw material price fluctuations such as soya meal, de oiled rice bran cake, maize, jowar, etc., as it is unable to pass on the variations in the raw material prices to its customers immediately. With raw material costs accounting for around 78% of total production cost, any adverse variation in raw material prices could affect the profitability margins.
- **Highly fragmented industry, given the low entry barriers:** The company faces stiff competition from other organised and unorganised players, as the industry is highly fragmented. Absence of entry barriers also limits its pricing flexibility and bargaining power with customers, thereby placing pressure on its revenues and margins.
- **Working capital intensive nature of operations:** The company's working capital intensity of operations remains high owing to its elongated receivables cycle which is inherent due to seasonality of operations. Receivable days were high at 88 days as on 31st March 2019.

Analytical Approach and Applicable Rating Criteria

BWR has applied its rating methodology as detailed in the Rating Criteria detailed below (hyperlinks provided at the end of this rationale).

Rating Sensitivities

The ability of the company to enhance its scale of operations, improve its profitability margins, strengthen its credit risk profile and manage its working capital efficiently would remain the key rating sensitivities.

Positive:

- Sustained improvement in scale of operations with improved profitability margins.
- Specific credit metrics that could lead to an upgrade of NFPL's rating include (1) Total



Debt/Tangible net worth below 2.0 time on a sustained basis, (2) Average Days receivables less than 60 days on a sustained basis.

Negative:

- Specific credit metrics that could lead to a downgrade of NFPL's rating include (1) Decline in profitability margins i.e., Operating margin below 7% and net margin below 2%, due to lower price realisations, increase in input costs due to changing industry conditions or a rise in capex (2) Total Debt/Tangible Net worth exceeding 3.50 times and weakening in debt protection metrics with DSCR and ISCR declining below 1.5 times

Liquidity Position: Stretched

NFPL's utilization of fund based working capital facilities is ~97% over the last 6 months, reflecting the working capital intensity of operations. Net cash accruals were Rs. 10.27 crore and Net cash accruals to Total debt was low at 0.13 times 31st March 2019. Current ratio was 1.25 times as on 31st March 2019. Debt repayment obligations for FY20 and FY21 are Rs. 0.84 crore and Rs. 4.49 crore respectively and are expected to be serviced through cash accruals generated from the business. Days receivables, Days Payable and Days Inventory were at 88, 50 and 18 as on 31st March 2019. Timely recovery of receivables and efficient management of its working capital requirements without any strain on borrowings/cash flows will be critical.

About the company

NG Feeds Private Limited was incorporated in November 2016 at Vijayawada, Krishna district, Andhra Pradesh by Shri. N Hari Kiran and Smt. N Prashanthi. NFPL is engaged in manufacturing of Fish & Shrimp feeds. The company's manufacturing facility is located in Krishna District, Andhra Pradesh. NFPL sell its fish feeds under registered brand 'Natpro' and Shrimp Feeds under registered brand 'Crevette'. Shri. N Hari Kiran is the Managing Director. Smt. N Prasanthi, Shri. K Rajesh and Shri. P Tirumala Babu are the other directors.

NG Feeds Private Limited is part of Vijayawada based NG Group. Other operational entities of the group are NG Phosphates Private Limited [*BWR BB+/A4+ (Outlook: Stable)*] and NG Fertilizers and Chemicals Private Limited [*BWR BBB/A3 (Outlook: Stable)*].

Key Financial Indicators

Key Parameters	Units	31 Mar 2019
Result Type		Audited
Operating Revenue	Rs. Cr	139.03
EBIDTA	Rs. Cr	19.21
Profit After Tax	Rs. Cr	4.28
Tangible Net Worth	Rs. Cr	23.77
Total Debt/Tangible Net Worth	Times	3.30
Current Ratio	Times	1.25

On a provisional basis, the company has achieved a revenue of ~Rs. 141 crore in H1FY20.

Key Covenants of the facility rated: The terms of sanction include standard covenants normally stipulated for such facilities.

Status of non-cooperation with previous CRA – Not Applicable

Rating History for the last three years

Sl. No.	Facilities	Current Rating (2019)				Rating History		
		Type	Amount (Rs. Cr)	Rating	23 rd May 2019 ¹	2018	2017	2016
1	Cash credit	Long Term	27.00	BWR BB/Stable	BWR BB/Stable	-	-	-
2	Term Loans		13.90			-	-	-
3	Suppliers Credit		30.00		-	-	-	
Total			Rs. 70.90 Crore (Rupees Seventy Crore Ninety Lakh Only)					

¹ Rated amount: Rs. 41.23 crore

Complexity Levels of the Instruments:

For more information, visit www.brickworkratings.com/download/ComplexityLevels.pdf

Hyperlink/Reference to applicable Criteria

- [General Criteria](#)
- [Approach to Financial Ratios](#)
- [Manufacturing Companies](#)

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NG Feeds Private Limited

Annexure I: Details of Bank Facilities rated

Sl. No.	Name of the Bank	Type of Facilities	Long Term (Rs. Cr)	Short Term (Rs. Cr)	Total (Rs. Cr)
1	Indian Bank	Cash Credit	27.00	-	27.00
		Term Loan	13.90	-	13.90
2	Andritz Feed & BioFuel A/s [Denmark]	Supplier Credit	30.00	-	30.00
TOTAL - Rupees Seventy Crores Ninety Lakh Only					70.90



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