

## NG Feeds Private Limited

January 11, 2023

### Ratings

Facilities	Amount (₹ crore)	Rating <sup>1</sup>	Rating Action
Long Term / Short Term Bank Facilities	15.00	CARE BB; Stable / CARE A4 (Double B; Outlook: Stable/ A Four )	Assigned
<b>Total Bank Facilities</b>	<b>15.00</b> <b>(₹ Fifteen Crore Only)</b>		

Details of instruments/facilities in Annexure-1

### Detailed Rationale & Key Rating Drivers

The rating assigned to the bank facilities of NG Feeds Private Limited (NGFPL) is constrained by its limited track record of operations with fluctuating yet satisfactory total operating income (TOI) during FY19-FY22 (FY refers to the period April 01 to March 31), leveraged capital structure and moderate debt coverage indicators. The rating is also constrained by stretched collection period, highly fragmented industry with intense competition and profitability being susceptible to volatility in raw material prices. However, the aforesaid constraints are partially offset by satisfactory operational performance, qualified and resourceful promoters, favorable location for its manufacturing units and stable demand outlook for aqua feed products.

### Rating Sensitivities

#### Positive Factors - Factors that could lead to positive rating action/upgrade:

- ✓ Ability of the company to increase its TOI to Rs 250 crore or more while maintaining PBILDT margin of minimum 5%.
- ✓ Overall gearing ratio improving below 1.2x on a sustained basis.
- ✓ Significant improvement in collection period and liquidity parameters.

#### Negative Factors- Factors that could lead to negative rating action/downgrade:

- ✗ Further elongation in operating cycle to more than 200 days.
- ✗ Deterioration in the capital structure with overall gearing deteriorating beyond 2.5x, in future.

### Detailed description of the key rating drivers

#### Key Rating Weaknesses

##### Limited track record of operations and fluctuating yet satisfactory total operating income (TOI).

NGFPL started its operations in FY2019 and has a relatively short track record of operations as compared with other established players in the market. The scale of operations of the company has been fluctuating during FY19-FY22 period and declined by 12% y-o-y in FY22.

The company has achieved a sale of Rs 139.03 crore during FY19, and with the favorable demand for its owned branded aqua feed products, the sales has significantly jumped by 75% to Rs 243.54 crore in FY20. However, due to Covid impact the sales were impacted in the Q4FY21, which resulted a de-growth in the TOI by 15% to Rs 205.84 crore during FY21, further, the sales continued to decline in FY22 and stood at Rs 181.39 crore, majorly due to labour shortages, logistical issues and lack of raw material availability. The GCA has also been on a declining trend and stood at Rs 5.74 crore during FY22

In the current year till 9MFY23, the company has seen an increase in the demand of its fish feed products and has achieved a sales of Rs ~230 crore.

##### Profitability being susceptible to volatility in raw material prices.

The major raw materials required for manufacturing of aqua feed are meat meal, soya cake, wheat and De Oiled Rice Bran (DORB). Soya, though not grown in Andhra Pradesh is abundantly available in Chhattisgarh, Uttar Pradesh, and Maharashtra and procured through local traders. Being agro commodities, the raw material is seasonal in nature and its prices dependent on vagaries of monsoon. Higher than normal or weak monsoon could result in increased prices of these commodities thereby adversely impacting profitability of the company. Although, the company pass on the volatility in the input prices to the customers albeit a time lag which results in fluctuating margins.

The overall profitability of the company has been declining from FY19 to FY21, due to rise in soya prices, which is the major portion of the total input cost. Apart, there was also an increase in labor and transport costs, which also pulled the margins. The

<sup>1</sup>Complete definitions of the ratings assigned are available at [www.careedge.in](http://www.careedge.in) and in other CARE Ratings Ltd.'s publications.

PBILDT margin has declined from 11.10% in FY19 to 6.77% in FY21. However, the PBILDT margin has improved to 7.28% in FY22 on account of increase in sales realization. Nevertheless, the company has maintained its PBILDT margin at 6-7%, which is expected to sustain.

#### **Moderate capital structure and debt coverage indicators**

The debt profile of the company mainly comprises working capital borrowings and term loans for building and machinery. The promoters are resourceful and have infused unsecured loan of Rs. 3.23 crore, which is subordinated to bank debt and hence the same has been considered quasi equity. Resultantly, the overall gearing improved and stood moderate at 1.68x as on March 31, 2022 from 2.02x as on March 31, 2020 owing to increase in net worth, coupled with repayment of bank term loans. The overall debt coverage indicators stood moderately weak due to low GCA and increase in interest expenses. The total debt to GCA of the company has deteriorated to 10.55x as on March 31, 2021 and has remained almost at the same level in March 31, 2022. The other debt coverage indicator, PBILDT interest coverage ratio has also deteriorated in FY21 and stood at 1.72x compared to 2.76x in FY20, and has remain at the same level in FY22 as well.

#### **Stretched collection period leading to high working capital intensive business**

The working capital cycle of the company has elongated during the review period i.e. FY19 to FY22 period, mainly due to stretched collection days. The working capital cycle has deteriorated from 105 days in FY19 to 144 days in FY22, due to high collection days at 229 days during FY22 from 88 days during FY19. The company sells the aqua feed to the local and non-local dealers, which inturn supply to the farmers who uses it to their respective ponds. The company has extended a high credit period to the dealers and in FY22 the realization was slow from the dealers which led to stretched collection days. The company supplies the pellets to the dealer right from baby fish till the fish weighs 1 kg, and the dealer usually clears the due of NGFPL in 5-6 months period.

#### **Presence in highly competitive industry**

As entry and exit barriers in aqua feed industry are low, the industry has many organized as well as unorganized players and industry is highly fragmented. As a result of this there is intense competition among industry players. However, the company has a competitive edge over others driven by its established market position and its continuous endeavour to improve quality in the product by deploying on field aqua culture technicians to analyse the product. It also has a dedicated in-house R&D and testing facility.

#### **Key Rating Strengths**

##### **Qualified and experienced promoters:**

NGFPL has been promoted by Mr. N Hari Kiran and Mr P Tirumala Babu. Mr. N Hari Kiran, is the Managing Director of NGFPL and has more than 2 decades of expertise in the organic fertilizer and feed business with the help of their group companies NG Fertilizers and Chemicals Pvt. Ltd and NG Phospates Pvt. Ltd. The promoters are qualified and has a deep understanding of the dynamics of the business and established relationships with the big farmers and dealers and suppliers. NG Feeds Private Limited benefits from the established brand and distribution network of the Group concerns.

##### **Favorable location for its manufacturing unit**

NGFPL manufacturing facility in the aquaculture zone of Andhra Pradesh, has enabled it to garner repeat orders and establish relationships with the dealers and farmers. The group operates through a vast distribution network along with a strong marketing team. The company's network is spread across the coastal Andhra Pradesh and includes regions like Krishna, Nellore, East Godavari and other West Godavari districts. The group has wide dealers network in the east India like West Bengal, Odisha, Chattisgarh, and has 60-70 dealers in total.

##### **Stable industry outlook:**

The increase in the demand of marine products is directly co-related to the aqua feed industry. Marine products exports from India reached the all time high of US\$ 7,740 million during 2021-22, despite the heavy odds faced by the sector. The target for 2021-22 fixed by Department of Commerce, GoI, for this sector was US\$ 7809 million and marine products export achieved 99.12% of the target. The growth observed is 30% higher when compared to 2020-21 in US\$ value terms. The seafood export Compound Annual Growth Rate (CAGR) during the past decade stands as 8.23%. As the demand of seafood in the export/domestic market increases, there would be equal demand for the aqua feed as well, which would drive the growth.

##### **Liquidity analysis: Adequate**

The liquidity position of the company is adequate, marked by sufficient accruals vis-à-vis repayment obligation. Although, utilized working capital lines highly utilised (on maximum basis for the past 12 months ended November 2022 the working capital

utilization stands around 95-100%). The utilization is expected to come down with enhancement for which management is planning to put the proposal to the bank in the next cycle of renewal. Also, company has generated positive CFO amounting to Rs 12.87 cr in FY22.

**Analytical approach:** Standalone

### Applicable Criteria

[Policy on default recognition](#)

[Financial Ratios – Non financial Sector](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Credit Watch](#)

[Short Term Instruments](#)

[Manufacturing Companies](#)

### About the Company

NG Feeds Private Limited (NGFPL), was incorporated in November 2016, at Vijayawada, Krishna district, Andhra Pradesh by Shri. N Hari Kiran and Smt. N Prashanthi. The company is part of Andhra Pradesh based NG Group and is engaged in manufacturing of Fish & Shrimp feed products (pellet). Its manufacturing facility is located in Krishna District, Andhra Pradesh with an installed capacity of 1,44,000 MTPA of which shrimp feed capacity is 24000 MTPA and remaining for fish feeds. NGFPL sells its floating and sinking fish/shrimp feeds under registered brand 'Natpro' and 'Amaze' and Shrimp Feeds under registered brand 'L3' which are available in 10 to 40 Kg packages depending upon the size of the pellets. The company sells these feed products to the dealer, which in turn supply to the farmers. The company receives 80% of the revenue from the fish feed and rest from the shrimp feed products.

Mr. N. Hari Kiran is the Managing Director of the Company. Mrs. N. Prasanthi, Mr. P Tirumala Babu and Mr. K. Rajesh are the other directors. The company has other group entities namely NG Fertilizers and Chemicals Pvt. Ltd and NG Phosphates Pvt. Ltd, engaged in business of manufacturing of fertilizers and agro chemicals.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	9MFY23 (Prov.)
Total operating income	205.84	181.39	230
PBILDT	13.94	13.21	NA
PAT	0.84	1.02	NA
Overall gearing (times)	1.96	1.68	NA
Interest coverage (times)	1.72	1.73	NA

A: Audited, NA: Not available, Prov: Provisional

**Status of non-cooperation with previous CRA:** Ratings of NGFPL was moved under "Issuer Non-Co-operation" (INC) category by Brickwork Ratings vide its PR dated October 20, 2022 due to lack of adequate information.

**Any other information:** Not Applicable

**Rating History for last three years:** Please refer Annexure-2

**Covenants of rated instrument / facility:** Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

**Complexity level of various instruments rated for this company:** Annexure 4

### Annexure-1: Details of Instruments / Facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT/ST-Cash Credit		-	-	-	15.00	CARE BB; Stable / CARE A4

**Annexure-2: Rating History of last three years**

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based - LT/ST-Cash Credit	LT/ST*	<b>15.00</b>	CARE BB; Stable / CARE A4				

\* Long Term / Short Term

**Annexure-3: Detailed explanation of covenants of the rated instrument / facilities: NA****Annexure 4: Complexity level of various instruments rated for this company**

Sr. No	Name of instrument	Complexity level
1	Fund-based - LT/ ST-Cash Credit	Simple

**Annexure 5: Bank Lender Details for this Company**

To view the lender wise details of bank facilities please [click here](#)

**Note on complexity levels of the rated instrument:** CARE Ratings Ltd. has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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