Nakoda Group Of Industries Limited

October 03, 2017

Rating

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long-term Bank Facilities	16.07	**CARE BB-; Stable (Double B minus; Outlook: Stable)**	Reaffirmed
Short-term Bank Facilities	0.41	**CARE A4 (A four)**	Reaffirmed
Total Facilities	**16.48 (Rupees Sixteen crore and forty eight lakh only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Nakoda Group of Industries Limited (NGIL) are constrained by modest scale of operations with moderate capital structure and debt coverage indicators, working capital intensive nature of operations, susceptibility of margins to foreign exchange fluctuations, vulnerability to fluctuations in prices of raw materials and intense competition due to fragmented nature of food processing industry.

The above weaknesses are partially offset by promoter's extensive experience of over two decades in the food processing sector, operational synergies with group entities and reputed customer profile and steady growth in revenues and declining albeit moderate profitability.

The ability of the company to increase its scale of operations while improving its profitability and debt coverage indicators while managing its working capital efficiently is the key rating sensitivity.

Detailed description of the key rating drivers

Key Rating Weaknesses

Modest scale of operations: The scale of operations of NGIL remained modest with TOI and networth of Rs 23.79 crore and Rs 5.41 crore as on March 31, 2017 since the entity took over business from its group entity. Small scale restricts the financial flexibility of the entity to an extent. Capital structure of the entity remained moderately high owing to initial years of operations and with low profitability, debt coverage indicators remained moderately weak. However, the overall TOI of the group has grown at a CAGR of 8% and remained at Rs. 85.53 crore while solvency position also remained at moderate level. However, profitability although remained at moderate level with net margin above 2% over last three years, the same have been declining during last three years ending FY17.Total operating income of the group has shown growth of 8% at Rs. 85.53 crore in FY17 from Rs. 79.34 crore FY16 led by increase in TOI of PO by 40% in FY17.Profitability of the company is moderate at 6.13% in FY17.

Working capital intensive nature of operations: The working capital cycle of the group remained elongated in line with FY16at 158 days led by high inventory holding period due to seasonal nature of raw materials used such as candied fruit cubes. Further, import of dry fruits is undertaken in bulk quantity to avail of bulk quantity discount and reduce logistics cost. Further, inventory of papaya needs to be maintained throughout the year. Further, the group receives payment in around two months from customers while payment is made to suppliers in around two months as well. Hence, working capital intensity of the business is high.

Susceptibility of margins to foreign exchange fluctuationss: The Nakoda group is exposed to the forex rate fluctuation risk due to its overseas exposure. Of the four entities of the Nakoda group, export is undertaken in NP and PFI, while three entities (NACPL, PO, PFI) undertake import of unprocessed dry fruits. The export proportion constituted about 30% of total sales of group in FY17. Further, the group also undertakes import of cashew and almond kernels, which constituted about 15-20% of the total purchases in FY17. As a result, margins are susceptible to fluctuations in the rupee/dollar exchange rate.

Vulnerability to fluctuations in prices of raw materials: The margins of the group are thus exposed to the volatility in the prices of these products during the procurement season. The group revises the prices of tuti fruity at least twice a year to mitigate the risk of changes in the raw material prices. However, existing competition within the industry limits the ability of the company to transfer the costs to the customers to some extent.

Fragmented nature of industry: The group faces competition from organized as well as unorganized players. Within the organized sector it faces competition from many established players at both national and international level. Considering the unorganized sector, the competition for the group is intense, due to the presence of small and regional players primarily catering to low income level customers. Presence of large number of regional and local manufacturers directly impacts the market position and profit margin of the group.

[1] *Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.*

Key Rating Strengths

Extensive track record of the group and experienced promoters: The group has a track record of more than two decades and has reinforced its footings in the food processing sector. Over the years, it has developed market for its products and established good relations with various customers. The Nakoda group is currently being jointly managed by the Choudhary family. The promoter of the group, Mr Pravin Choudhary, aged 53 years, has done B.Com and LLB and has experience in business management and food processing sector. The third generation entrepreneur, Mr Jayesh Choudhary is the CEO of the group, who has done MBA and has about five years of experience in the food processing sector. Further, the group has an established sales network all over India, with presence in all major states of India.

Operational synergies with group entities: The group companies have a common management team with operational and financial inter linkage between them. Companies utilize a common procurement, manufacturing, marketing and advertising network. Based on the availability of labour, machine capacity, bank facilities and others, the group undertakes processing of products under different entities of its group. Further, all group companies sell products under the common brand name 'Nakoda'. As a result, companies derive benefit from the synergy of their operations with each other**.**

Reputed customer profile: With the promoters' extensive industry experience coupled with marketing effort, the group has been able to establish strong relationship with its customers. The group's major customers include Britannia Industries Limited, Haldiram Foods Pvt Ltd, Modern Bakery LLC,Saudi Master Baker Limited, Modern Bakery LLC, Dubai, Sonu Monu Industries, Farmico Commodities Limited (erstwhile known as Wadhwani Commodities Trading Private Limited) and others. The group has long-standing relationship of about one decade with these players. Because of the reputed clientele, the credit risk remains low and the group has been able to get repeat orders from these clients, with regular receipt of sales proceeds

Analytical Approach: Standalone

Applicable criteria

[Criteria on assigning Outlook to Credit Ratings]
[CARE's Policy on Default Recognition]
[Criteria for Short Term Instruments]
[CARE's Methodology for factoring linkages]
[CARE's Methodology for Trading Companies]
[CARE's Methodology for Manufacturing Companies]
[Financial ratios (Non-Financial Sector)]

About the Company

Nagpur based, Nakoda Group of Industries Limited (NGIL) [erstwhile known as Nakoda Group Of Industries Private Limited] is established in October 2013 by Mr Jayesh Choudhary and Mr Pravin Choudhary. There were no operations under the company till FY16. However, in May 2016 the company took over the operations of Navkar Procesors {rated CARE BB-/ CARE A4; (accepted) on September 15, 2015}. Navkar Processors (NP) was established as a proprietorship firm in the March 1996 and is based in Nagpur.

The 'Nakoda' group was established in the year 1989 by the Choudhary family, led by father of Mr. Pravin Choudhary and is also based out of Nagpur, Maharashtra. The group is engaged in the trading and processing of dry fruits, candied fruit cubes (tutti-fruity, candied karonda) and other agro-based food products. The end products of the entity included jams and jellies. Currently the group is managing five entities viz. NGIL, Nakoda Agro Commodities Private Limited [NACPL], Parshvanath Overseas LLP, Parshwa Food International PFI and Nakoda Fruit Products Private Limited (NFPL, CARE B+/A4, Outlook: Stable; February 2017).

The group procures raw/unprocessed dry fruits (cashew/almond kernels) from the domestic and overseas market and sells them in India and abroad. For candied fruit cubes, the group procures raw papaya from the domestic market, while sale is in domestic as well as in the overseas market. Import is done from USA, Indonesia and African countries while the group exports its products to Chile, Dubai, Iran, Israel, Bangladesh, Singapore, U.A.E, Damam and others.

The products of the group are sold under the brand name of 'Samrat' and 'Nakoda'. Products are used primarily in deserts, ice-creams, bakery products and others. Major clients of the group are manufacturers of ice-Cream, bakery products, sweets & namkeens and others. Domestic customers of the group are Britannia Industries Limited, Haldiram Foods International Limited, Modern Bakery LLC, Haldiram Bakery Products Private Limited, Disha Foods Private Limited (ITC Group), Sonu Monu Industries, Farmico Commodities Limited (erstwhile known as Wadhwani Commodities Trading Private Limited) and others.

The group has an installed capacity of about 6150 MTPA as on March 31, 2017 with a capacity utilization of 35 percent in FY17.

Brief Financials (Rs. crore)	FY16	FY17

	12M, A	12M, A
Total operating income	79.34	85.53
PBILDT	5.55	5.24
PAT	1.76	1.74
Overall gearing (times)	1.56	1.61
Interest coverage (times)	1.81	1.88

A: Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History (Last three years): Please refer Annexure-2

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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Annexure-3: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	June 2023	6.32	CARE BB-; Stable
Fund-based - LT-Cash Credit	-	-	-	9.75	CARE BB-; Stable
Non-fund-based - ST-Bank Guarantees	-	-	-	0.25	CARE A4
Non-fund-based - ST-Forward Contract	-	-	-	0.16	CARE A4

Annexure-4: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Fund-based - LT-Term Loan	LT	6.32	CARE BB-; Stable	-	1)CARE BB- (27-Jun-16)	-	-
2.	Fund-based - LT-Cash Credit	LT	9.75	CARE BB-; Stable	-	1)CARE BB- (27-Jun-16)	-	-
3.	Non-fund-based - ST-Bank Guarantees	ST	0.25	CARE A4	-	1)CARE A4 (27-Jun-16)	-	-
4.	Non-fund-based - ST-Forward Contract	ST	0.16	CARE A4	-	1)CARE A4 (27-Jun-16)	-	-

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CIN - L67190MH1993PLC071691