Rating Rationale **08 March 2021**

Nature Bio Foods Limited

Brickwork Ratings assigns ratings for the Bank Loan Facilities of Rs 124.80 Crs of Nature Bio Foods Limited

Facility**	Present Amount (Rs crs)	Tenure	Present Rating*
Fund based	99.89	Long Term	BWR A (Stable)
Non Fund Based	25.00	Short Term	BWR A1
Total	124.80	Rs One Hundred Twenty Four Crore and Eighty Lakhs Only	

*Please refer to BWR website www.brickworkratings.com/ for the definition of the ratings
**Details of facilities in Annexure-1

RATING ACTION / OUTLOOK

Brickwork Ratings (BWR) has assigned long- and short-term ratings to the bank loan facilities of Nature Bio Foods Limited (NBFL or the company), driven by its strong business profile and an improvement in the credit profile and financial performance in FY20 and 9MFY21, which in turn is driven by a growing scale of operations in its resilient rice processing business, along with comfortable credit ratios. The ratings are underpinned by NBFL's strong operating, financial and strategic linkages with its parent company LT Foods Limited (BWR A+/Stable). NBFL derives 45% of its revenues from sales to group companies. NBFL's loans are backed by corporate guarantee from LT Foods Limited to the tune of Rs 75 Crs.

The ratings factor in the company's and group's long track record of operations in the rice industry and experienced management, strong distribution network, diversified product portfolio and strong brand recall, geographical diversification and large scale of operations, coupled with a sound financial risk profile. The rating is, however, constrained by the inherent business risks of the susceptibility of profitability margins to an adverse movement in raw material prices, competitive nature of the industry, high working capital intensity and exposure to commodity, currency and agro climatic risks, which could add pressure on the margins.

The rating outlook is Stable on account of a sound demand outlook for the rice industry for both the short and medium term due to its essential nature and has hence, not been impacted by the Covid-19 pandemic.

Description of Key Rating Drivers

BWR has principally relied on the audited financial results of FY18-20, 9MFY21 financials, projected financials for FY21-22, and publicly available information and clarification provided by the company's management.

Credit Strengths:

- ***Established operational track record and several decades-long experience of promoters in the basmati rice industry:*** Although NBFL has a track record of functioning in the basmati rice industry since 2005, LTF and group constitute a fully integrated rice producing company with an operational track record of over five decades. Moreover, the company's management has vast experience spanning several decades in the basmati rice industry. The group has established a market position as one of the top two players in the domestic basmati rice industry.

- ***Diversified product portfolio, branded sales, geographical diversification:*** Although NBFL derives almost 67% revenue from the processing/milling of rice and the remaining 33% from other organic and agri food products, the group has a diversified portfolio of different varieties of products such as basmati and other speciality contributing 85% of revenue, organic foods and ingredients contributing 9%, and health and convenience foods contributing (1%) and has established well-known brands, such as Daawat, Royal, Devaaya, Rozana, Heritage, Chef's Secretz, Daawat Brown Rice, Ecolife, Devaaka and Kari Kari, in the domestic and export markets. NBFL's revenue profile is diversified, with 75% contribution in the export market and 25% contribution in the domestic market in FY20. Furthermore, the group has a geographical presence, with an established market presence across more than 80 countries. The proportion of value-added products is expected to increase to 15% in the next two fiscal years at the group level. In all, the group has 19 brands registered in its name, and the branded business constitutes almost two thirds of the total revenue.

- ***Large scale of operations and improved profitability***: The business and operational risk profile is supported by a strong distribution and procurement network, branded business and long-standing relations with key suppliers and customers. NBFL's standalone turnover increased by 1.10% y-o-y in FY20 to Rs 343.69 Crs due to a 3.88% y-o-y increase in volumes. NBFL's PAT improved from Rs 18.14 Crs in FY19 to Rs 19.33 Crs in FY20. The group registered a consolidated turnover of Rs 4146.12 Crs in FY20, compared with Rs 3890.43 Crs in FY19. Furthermore, the group registered a consolidated turnover of Rs 3523.61 Crs in 9MFY21, compared with Rs 2967.27 Crs in 9MFY20 at a growth rate of 18.74% due to the essential nature of the industry. The group's PAT improved from Rs 137.47 Crs in FY19 to 199.3 Crs in FY20 and further improved from Rs 140.95 Crs in 9MFY20 to Rs 229.34 Crs in 9MFY21.

- ***Induction of equity leading to better capital structure***: India Agri Fund, Mauritius, has signed an agreement for investing Rs.140 Crs in Nature Bio Food Limited. The first

tranche of Rs.60 Crs was infused in November 2019. The second tranche shall be availed in the early part of FY22. Likewise, reputed foreign funds invested in a Rs 400 Crs qualified institutional placement (QIP) of LTF earlier in January 2018. Bank borrowing has reduced over the years in LT Foods Ltd group companies owing to the equity infused in the business. This has reduced the cost of funds, as well as risk quotient in running the business.

- ***Sound financial risk/credit profile:*** On a standalone basis, NBFL's debt protection metrics are adequate, as indicated by the interest service coverage ratio (ISCR) of 4.48 x in FY20. The gearing (adjusted) is also adequate and has been following a declining trend over the years. The gearing (adjusted) declined to 0.71 x in FY20, compared with 0.87 x in FY19 due to the reduction of debt and plough back of profits. At the group level, funds raised through the QIP during FY18 helped cover the working capital requirements and thus, reduced dependence on external debt over the years. As a result, the group's total outside liabilities to adjusted net worth (TOL/ANW) ratio improved to 1.48x in FY20 from around 1.59x in FY19 and may improve further due to the reduction in debt levels with no major capex plans over the medium term. At the group level the overall debt protection metrics (consolidated) improved in FY20, compared with FY19, as indicated by the ISCR and debt service coverage ratio (DSCR) of 3.56x and 2.78x in FY20 against 2.87x and 2.03x in FY19, respectively, and are expected to improve further in the next two fiscal years with no major debt-funded capital expenditure over the medium term. Furthermore, at the consolidated level, the group's ISCR improved to 6.75 x in 9MFY21 as compared to 3.70 x in 9MFY20.

Credit Weaknesses:

- ***High working capital intensity:*** The company's working capital intensity remains high, primarily due to high inventory levels, given the seasonality in the availability of basmati paddy and the need to store rice for ageing, due to which the cash conversion cycle stood at 215 days in FY20. The reason for the high inventory is that it improves the quality of rice and attracts premium pricing; however, the working capital utilisation at a standalone level has been around 67% for the seven months ending January 2021.

- ***Volatility in raw material prices:*** The company is exposed to risks related to any steep decline in paddy prices, which can result in the risk of inventory losses; however, the risk is partly mitigated by past paddy prices being stable and the expectation of prices to likely be stable, vis-à-vis the levels prevailing at the end of the preceding year. With selling prices also running stable, FY21 margins are likely to be protected. This risk is mitigated by the fact that basmati rice is consumed by customers from a relatively higher income group. Thus, any increase in the price is relatively easier to absorb in the branded segment. The operating margin stood at 8.93% in 9MFY21, as against 10.93% in 9MFY20 due to an increase in the cost of goods sold, and the net profit margin stood at 3.94% in 9MFY21, against 4.95% in 9MFY20.

- ***Exposure to foreign exchange risk:*** As exports constitute a significant percentage of the turnover, the company remains exposed to currency fluctuations to the extent of unhedged exposure. However, it has a well-defined treasury risk management policy in place to reduce any impact of a fluctuation in foreign exchange rates through forward cover and packing credit limits. This risk is mitigated as a well-defined treasury risk management policy exists in writing.

- ***Exposure to agro-climatic risks and changes in trade policies:*** Given its operations in an agro-based industry, the company is exposed to agro-climatic risks such as raw material availability, and its quality and pricing. Moreover, the company is exposed to changes in the trade policies of key importing countries, which can impact export revenues. The company, however, derives strength from the fact that the sales and exports are to stable economies, resulting in lower trade policies risk.

- ***Intense competition:*** The basmati rice industry is highly fragmented and is marked by the presence of numerous players. This intensifies competition and limits the pricing flexibility of industry participants. However, this risk is partly mitigated by good brand recall and long-term customer relations.

ANALYTICAL APPROACH AND APPLICABLE RATING CRITERIA:
For arriving at the ratings, BWR has applied its parent notch-up framework to factor in the extent of support available to NBFL's from its parent, LTF.

RATING SENSITIVITIES

Positive: BWR may revise the ratings upward if there is a sustained improvement in NBFL's credit profile, with the ability to achieve optimal capacity utilisations and margins over the medium term.
Negative: BWR may revise the ratings downwards if there is a sustained deterioration in the company's EBITDA and debt protection metrics and/or a stretch in its working capital/liquidity.

The ratings may be reviewed upon any change in the group linkages or shareholding structure.
LIQUIDITY POSITION - Superior
The current ratio declined from 2.01 in FY19 to 1.68x in FY20, but is still in a comfortable range. The working capital utilisation at a standalone level for the past seven months ending January 2021 was 67%; thus, sufficient headroom is available for working capital needs. The company has cash accruals of Rs 25.1 Crs, against the minimal repayment of Rs 0.55 Crs in FY 20 as there is no long-term debt.

About the Company
NBFL is a 99% subsidiary of LT Foods, was incorporated in 2005 and so far has pioneered its organic ingredient operations in India. NBF contributes 55 mn USD to the group revenue and 25% of India's organic food exports in FY 20. The company's products comprises organic foods

such as organic rice, organic pulses, organic seeds, organic millets, organic nuts, organic flour, organic protein, organic oils, organic syrups. Domestically it sells under its brand name Ecolife, while exports are mainly as ingredients. It has a capacity of 15 tph in Sonipat, Haryana. It works on the stock and sell method. The company has a 48% geographical spread of organic operations in India. The company exports to 25 countries, majorly countries such as the US, Europe, Israel, East Coast Africa, Australia and New Zealand, and in India, the geographical reach is to states such as J&K, Rajasthan, Uttar Pradesh, Madhya Pradesh, Gujarat, Maharashtra and Bihar. It has almost 85% share of organic flour exports from India to the world, 78% share of basmati exports from India to the world, 52% share of organic pulses and lentil exports and 20.6% share of organic oil seeds from India to the world.

Key Financial indicators (At standalone Level)

Key Parameters	Units	FY 19	FY 20
Result Type		**Audited**	**Audited**
Operating Income	Rs in Crs	339.94	343.69
EBITDA	Rs in Crs	39.21	30.21
Net Profit	Rs in Crs	18.14	19.33
Tangible Net Worth (adjusted)	Rs in Crs	125.6	140.76
Total Debt/Tangible Net Worth(adjusted)	Rs in Crs	0.87	0.71
Current ratio	Times (x)	2.01	1.68

**adjusted for non current investments*

KEY COVENANTS OF THE INSTRUMENT/FACILITY RATED -There are no Key covenants

NON-COOPERATION WITH PREVIOUS RATING AGENCY IF ANY - Not applicable

RATING HISTORY for last three years including withdrawal and Suspended)

S. No	Instrument /Facility	Current Rating (Year T-2021)			Chronology of Rating History for the past 3 years (Rating Assigned and Press Release date) along with outlook/ Watch, if applicable		
		Type (Long Term/ Short Term)	Amount (Rs crs)	Rating	Date(s)& Rating(S) assigned in year T-1 (2020)	Date(s)& Rating(S) assigned in year T-2 (2019)	Date(s)& Rating(S) assigned in year T-3 2018
1	**Fund Based**	Long Term	124.80	**BWR A (Stable)**	-	-	-
	Total		**124.80**	**(Rupees One Hundred Twenty Four Crore and Eighty Lakhs Only)**			

COMPLEXITY LEVELS OF THE INSTRUMENTS- Simple

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

Hyperlink/Reference to applicable Criteria

- **General Criteria**
- **Approach to Financial Ratios**
- **Manufacturing Sector**
- **Short Term Debt**
- **Criteria for Notching up Stand Alone Ratings of Companies based on Parent Support**

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Nature Bio foods Limited

ANNEXURE I

Details of Bank Facilities rated by BWR

Sl. No.	Type of Facilities	Long Term (Rs in crs)	Short Term (Rs in Crs)	Total (Rs in crs)
1	Working capital Facilities Such as , EPC/FBP	99.80		99.80
2	Forward Cover		25.00	25.00
TOTAL				124.80

(Rupees One Hundred Twenty Four Crore and Eighty Lakhs Only)

For print and digital media
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