CRISIL Ratings

Rating Update

August 16, 2024 | Mumbai

HMA Agro Industries Limited

Update as on August 16, 2024

This update is provided in continuation of the rating rational below.

The key rating sensitivity factors for the rating include:

Upward factors:

- Stabilization of operations in UFPPL leading to overall improvement in group's operating profitability to over 6-6.5%, amidst sustained volumetric growth
- Sustenance of healthy financial risk profile amidst efficient working capital management

Downward factors:

- Decline in operating income or operating margins falling below 3-3.5% leading to lower than expected net cash accruals.
- Any large, debt-funded capital expenditure, weakening the financial risk profile and liquidity.

CRISIL Ratings has a policy of keeping its accepted ratings under constant and ongoing monitoring and review. Accordingly, CRISIL Ratings seeks regular updates from companies on the business and financial performance. CRISIL Ratings is, however, awaiting adequate information from HMA Agro Industries Limited (HMA; part of the HMA group) which will enable us to carry out the rating review. CRISIL Ratings will continue provide updates on relevant developments from time to time on this credit.

CRISIL Ratings also identifies information availability risk as a key credit factor in the rating assessment as outlined in its criteria 'Information Availability Risk in Credit Ratings'.

About the Group

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UFPPL: Set up in 2018, UFPPL has set up an integrated and export-oriented buffalo meat processing plant as well as an animal slaughterhouse in Haryana. The company commenced operations in January 2023 and is a wholly owned subsidiary of HMA. UFPPL aims to export in the European market but is vulnerable to changes in government regulations.

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CRISIL Ratings

Rating Rationale

April 04, 2024 | Mumbai

HMA Agro Industries Limited

Rating reaffirmed at 'CRISIL A-/Stable'; Rated amount enhanced for Bank Debt

Rating Action

Total Bank Loan Facilities Rated	**Rs.500 Crore (Enhanced from Rs.400 Crore)**
Long Term Rating	**CRISIL A-/Stable (Reaffirmed)**

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1 crore = 10 million
Refer to Annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL Ratings has reaffirmed its 'CRISIL A-/Stable' rating on the long-term bank facilities of HMA Agro Industries Ltd (HMA; part of the HMA group).

The rating continues to reflect the established market position and healthy financial risk profile of the HMA group. These strengths are partially offset by low operating profitability.

Analytical Approach

CRISIL Ratings has combined the business and financial risk profiles of HMA and its wholly owned subsidiary, United Farm Products Pvt Ltd (UFPPL). These companies, together referred to as the HMA group, have common management and operational and financial linkages.

Please refer Annexure - List of Entities Consolidated, which captures the list of entities considered and their analytical treatment of consolidation.

Key Rating Drivers & Detailed Description

Strengths:

- **Established market position:** The promoters have experience of more than six decades in the meat processing industry, which has helped build understanding of market. The group has been able to maintain healthy relationships with customers, which helped achieve operating income compound annual growth rate (CAGR) of around 35% for the three fiscals through 2023. With year-to-date operating income of Rs 3,400 crore as of December 2023, operating income is expected at Rs 4,400-4,600 crore in fiscal 2024. The operating income will be driven by volume growth on account of addition of new products such as fish, sheep, and goat meat, along with addition of new geographies, such as the US and Europe, along with improved supply chain management with addition of warehouses in Europe and China to cater to customer requirement. This will not only help diversify business operations and insulate the group from downturns in a segment and continue to provide revenue visibility and support the business risk profile.

- **Healthy financial risk profile:** HMA's dependency on external debt has always been minimal as reflected in gearing levels consistently been lower than 1 time till March 31, 2023, despite consistent improvement in scale of operations. Working capital requirements have also been efficiently managed with low dependency on bank lines, as working capital requirements are well managed though credit extended by creditors and internal cash accruals, resultantly the bank limit utilisation has been ~60% for last 12 months through Dec'23, providing sufficient headroom to take on additional debt for business purposes, if warranted. Going ahead, with no major, debt-funded capex proposed over the medium term and accretion of reserves into business, the capital structure is expected to remain comfortable with expected gearing of 0.6-0.7 time in ongoing fiscal. Lower dependency on external debt will keep the debt protection metrics healthy, too, with interest coverage expected at 16-17 times over the medium term.

Weakness:

- **Low operating profitability:** The operating margin of the group was impacted on account of nascent stages of operations in UFPPL, where the plant is operating at lower capacity, because of which absorption of fixed cost overheads have been low, pulling down the operating margin to around 4% for the nine months of fiscal 2024 from 5.5-6.0% during last 2-3 fiscals. Going ahead, with product and customer diversification, plant capacity utilisation of UFPPL shall improve, aiding better operating margin, however, its sustained improvement leading to overall improvement in profitability of the group will remain a key rating sensitivity factor.

Liquidity: Strong

HMA is expected to generate net cash accruals in range of Rs 200-250 crores, which shall be sufficient to meet up with annual repayment obligations ranging between of ~Rs 13.0 crore over medium term. Excess accruals will contribute towards the incremental working capital requirement, keeping the reliance on external debt low. Cash and cash equivalents have been ~Rs 30 crores as on Dec'23, which is expected to be in range of Rs 30-40 crores over medium term. HMA also has access to fund based working limits of Rs 365 crores, where average limit utilisation has been ~60% for last 12 months through December 2023. CRISIL Ratings expects internal accruals, cash & cash equivalents and unutilized bank lines to be sufficient to meet its repayment obligations as well as incremental working capital requirements.

Outlook: Stable

The HMA group will continue to benefit from the experience of the promoters and its comfortable financial risk profile.

Rating Sensitivity factors

Upward factors:

- Stabilization of operations in UFPPL leading to overall improvement in group's operating profitability to over 6-6.5%, amidst sustained volumetric growth
- Sustenance of healthy financial risk profile amidst efficient working capital management

Downward factors:

- Decline in operating income or operating margins falling below 3-3.5% leading to lower than expected net cash accruals.
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Key Financial Indicators (Standalone)

Particulars	Unit	9M FY24	2023	2022
Revenue	Rs crore	3347	3126	2922
Profit after tax (PAT)	Rs crore	124	137	110
PAT margin	%	3.7	4.4	3.76
Adjusted debt/adjusted networth	Times	0.41*	0.58	0.72
Interest coverage	Times	20.7	12.8	10.9

**As on Sep23.*

Any other information: Not Applicable

Note on complexity levels of the rated instrument:

CRISIL Ratings` complexity levels are assigned to various types of financial instruments and are included (where applicable) in the 'Annexure - Details of Instrument' in this Rating Rationale.

CRISIL Ratings will disclose complexity level for all securities - including those that are yet to be placed - based on available information. The complexity level for instruments may be updated, where required, in the rating rationale published subsequent to the issuance of the instrument when details on such features are available.

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Annexure - Details of Instrument(s)

ISIN	Name of the instrument	Date of Allotment	Coupon Rate (%)	Maturity Date	Issue size (Rs.Crore)	Complexity Level	Rating assigned with outlook
NA	Export Packing Credit	NA	NA	NA	480	NA	CRISIL A-/Stable
NA	Proposed Working Capital Facility	NA	NA	NA	20	NA	CRISIL A-/Stable

Annexure – List of entities consolidated

Names of Entities Consolidated	Extent of Consolidation	Rationale for Consolidation
United Farm Product Pvt Ltd	Full	Same line of business, common promoters and operational linkages
HMA Agro Industries Ltd	Full	

Annexure - Rating History for last 3 Years

	Current	2024 (History)	2023	2022	2021	Start of 2021

Instrument	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund Based Facilities	LT	500.0	CRISIL A-/Stable		--	23-03-23	CRISIL A-/Stable	22-03-22	CRISIL A-/Stable	24-12-21	CRISIL A-/Stable	CRISIL BBB+/Stable / CRISIL A2
			--		--		--		--	13-12-21	CRISIL A-/Stable	--
			--		--		--		--	02-08-21	CRISIL BBB+/Stable	--

All amounts are in Rs.Cr.

Annexure - Details of Bank Lenders & Facilities

Facility	Amount (Rs.Crore)	Name of Lender	Rating
Export Packing Credit	240	State Bank of India	CRISIL A-/Stable
Export Packing Credit	160	YES Bank Limited	CRISIL A-/Stable
Export Packing Credit	80	YES Bank Limited	CRISIL A-/Stable
Proposed Working Capital Facility	20	Not Applicable	CRISIL A-/Stable

Criteria Details

Links to related criteria
CRISILs Approach to Financial Ratios
Rating criteria for manufaturing and service sector companies
CRISILs Bank Loan Ratings - process, scale and default recognition
CRISILs Criteria for Consolidation
CRISILs Criteria for rating short term debt

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