

Rating Rationale

March 23, 2023 | Mumbai

HMA Agro Industries Limited

Rating reaffirmed at 'CRISIL A-/Stable'

Rating Action

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

Note: None of the Directors on CRISIL Ratings Limited's Board are members of rating committee and thus do not participate in discussion or assignment of any ratings. The Board of Directors also does not discuss any ratings at its meetings.

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 bank facilities of HMA Agro Industries Limited (HMA; a part of the HMA group).

The rating continues to reflect established market position and healthy financial risk profile of the HMA group. These strengths are partially offset by moderate scale of operations and 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), together referred as the HMA group, as the two companies have common management with 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 more than six decades of experience in the meat processing industry which has helped build an in-depth understanding of industry and market. Resultantly, group has been able to maintain healthy relationships with customers and suppliers that should continue to support the business. The HMA group is among the top three exporters of buffalo meat in India and accounts for 11.0-11.5% of the total export of frozen buffalo meat. Revenue is projected at Rs 2,900-3,000 crore for fiscal 2023, with sales of Rs 2,700-2,800 crore already booked till February 2023 (against Rs 2,923 in fiscal 2022). Further, with incorporation of subsidiary- United Farm Products Private Limited, and its timely commencement of operations during Jan-23, the business risk profile of the group will further strengthen over the medium term. CRISIL Ratings believe that strong demand for buffalo meat in the international market, established customer relationship and growth anticipated from incorporation of the subsidiary (UFPPL) will ensure steady increase in revenue and volumes and its sustenance amid efficient working capital management will be closely monitored.
- Healthy financial risk profile:** Financial risk profile will remain supported by steady accretion of reserve and the absence of any large, debt-funded capital expenditure (capex). Total outside liabilities to tangible networth ratio is expected at below 1 time as on March 31, 2023, as against 1.2 times a year ago, due to healthy accretion to reserves. Gearing may continue at less than 1 time over the medium term, driven by moderate reliance on debt amid prudent working capital management. Networth is projected at Rs 495-500 crore as on March 31, 2023. Debt protection metrics should remain healthy, with interest coverage ratio expected at 17-18 times and net cash accrual to total debt ratio at 0.4-0.5 time for fiscal 2023.

Weaknesses:

- Moderate scale of operations:** Volumetric growth during fy23 shall remain muted, on year basis, and this along with decline in realisation witnessed during the fiscal, shall result in moderate revenue estimated at Rs 3000-3200 crore; Rs 2930 crore reported during fy22. Even though management has expanded its capacities through setting up of UFPPL, its operations are at nascent stages, hence constraining the business growth; revenue contribution from UFPPL is estimated at around Rs 100 crore during fy23. CRISIL believes that stabilization of operations in UFPPL, along with steady capacity utilization in HMA, leading to steady increase in volumetric growth of the growth will remain a key monitorable. Further, any delay in stabilization of operations in UFPPL, due to lower-than-expected demand, leading to weakening of business performance of the group will remain a key rating sensitivity factor.
- Low operating profitability:** Operating profitability has remained low at less than 5% over the past few fiscals through fy22. The was on account of multiple plants being operated on lease/rental model, to cater to customers demand, hence impacting the operating efficiencies. With setting up of UFPPL, the dependence on stated plants is expected to reduce due to shifting of production activities to UFPPL and this, along with other cost rationalization measures shall result in

improvement in operating efficiencies over the medium term, however, its sustenance amidst business growth will remain a key monitorable; operating profitability is estimated at around 6.2% during 9m-fy23.

Liquidity: Strong

Liquidity should remain supported by the ample surplus available in cash accrual and bank lines. Cash accrual is projected at Rs 130-150 crore over the medium term, against repayment obligation of Rs 10-13 crore. Surplus will aid the requirement pertaining to incremental working capital needs and routine capital expenditure Bank limit utilisation was 74% (on average) for the 12 months through January 2023. Current ratio is expected to be healthy at 1.7-1.8 times as on March 31, 2023.

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:

- Significant and sustained increase in revenue driven by improved volumes along with stable operating profitability at over 6.3-6.5%, leading to more than expected net cash accrual
- Improvement in the financial risk profile, driven by prudent working capital management and hence lower reliance on external debt

Downward factors:

- Revenue declining by 20-25% per annum and/or operating profitability dropping by 100-150 basis points, leading to lower-than-expected cash accrual
- Sizeable stretch in the working capital cycle and/or any large, debt-funded capex

About the Group

HMA: Incorporated in 2008, HMA processes and exports frozen buffalo meat. Its facility is at Aligarh in Uttar Pradesh. Late Mr Haji Mohammed Ashiq Qureshi is the founder and Mr Gulzeb, Gulzar and Wazib Ahmed are the three directors from the group.

UFPPL: Established 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 subject to changes in government regulations.

Key Financial Indicators

As on / for the period ended March 31		2022	2021
Operating income	Rs crore	2927.42	1709.90
Reported profit after tax (PAT)	Rs crore	110.34	72.44
PAT margin	%	3.77	4.24
Adjusted debt/adjusted networkth	Times	0.72	0.66
Interest coverage	Times	21.63	16.24

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.

For more details on the CRISIL Ratings` complexity levels please visit www.crisilratings.com. Users may also call the Customer Service Helpdesk with queries on specific instruments.

Annexure - Details of Instrument(s)

SIN	Name of 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	240	NA	CRISIL A-/Stable
NA	Export Packing Credit	NA	NA	NA	40	NA	CRISIL A-/Stable
NA	Export Packing Credit	NA	NA	NA	85	NA	CRISIL A-/Stable
NA	Proposed Working Capital Facility	NA	NA	NA	35	NA	CRISIL A-/Stable

Annexure – List of entities consolidated

Names of Entities Consolidated	Extent of Consolidation	Rationale for Consolidation
UFPPL	Full	Same line of business, common promoters and operational linkages
HMA	Full	

Annexure - Rating History for last 3 Years

	Current	2023 (History)	2022	2021	2020	Start of 2020

Instrument	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund Based Facilities	LT	400.0	CRISIL A-/Stable		--	22-03-22	CRISIL A-/Stable	24-12-21	CRISIL A-/Stable	23-10-20	CRISIL BBB+/Stable / CRISIL A2	CRISIL A3+ / CRISIL BBB/Stable
			--		--		--	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	HDFC Bank Limited	CRISIL A-/Stable
Export Packing Credit	125	YES Bank Limited	CRISIL A-/Stable
Proposed Working Capital Facility	35	Not Applicable	CRISIL A-/Stable

This Annexure has been updated on 23-Mar-2023 in line with the lender-wise facility details as on 24-Dec-2021 received from the rated entity.

Criteria Details

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

Media Relations	Analytical Contacts	Customer Service Helpdesk
<p>Aveek Datta Media Relations CRISIL Limited M: +91 99204 93912 B: +91 22 3342 3000 AVEEK.DATTA@crisil.com</p> <p>Prakruti Jani Media Relations CRISIL Limited M: +91 98678 68976 B: +91 22 3342 3000 PRAKRUTI.JANI@crisil.com</p> <p>Rutuja Gaikwad Media Relations CRISIL Limited B: +91 22 3342 3000 Rutuja.Gaikwad@ext-crisil.com</p>	<p>Nitin Kansal Director CRISIL Ratings Limited D:+91 124 672 2154 nitin.kansal@crisil.com</p> <p>Gaurav Arora Associate Director CRISIL Ratings Limited D:+91 124 672 2181 gaurav.arora@crisil.com</p> <p>Twesha Kapur Management Trainee CRISIL Ratings Limited B:+91 124 672 2000 Twesha.Kapur@crisil.com</p>	<p>Timings: 10.00 am to 7.00 pm Toll free Number:1800 267 1301</p> <p>For a copy of Rationales / Rating Reports: CRISILratingdesk@crisil.com</p> <p>For Analytical queries: ratingsinvestordesk@crisil.com</p>

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