



Press Release

HMA Agro Industries Limited

September 30, 2020

Ratings

Sl. No.	Instrument/Facility	Amount (Rs. Crore)	Ratings	Rating Action
1	Long Term Bank Facility- Fund Based Limit	160.00	IVR BBB+/Stable (IVR Triple B Plus with Stable Outlook)	Assigned
2	Proposed Long Term Bank Facility- Fund Based Limit	90.00	IVR BBB+/Stable (IVR Triple B Plus with Stable Outlook)	Assigned
1	Short Term Bank Facility- Fund Based Limit	50.00	IVR A2 (IVR A Two)	Reaffirmed
	Total	300.00 (Rupees three hundred crore only)		

Details of Facilities are in Annexure 1.

Detailed Rationale

The ratings assigned to the bank facilities of HMA Agro Industries Limited (HMA) continues to derive comfort from the established track record of the company, longstanding experience of the promoters, proximity to source of raw material and stable demand prospects. The ratings are also underpinned by its stable financial performance marked by improvement in total operating income, comfortable capital structure with nil long term debt coupled with comfortable debt protection metrics and its strong liquidity with efficient working capital management. However, these rating strengths are partially offset by its presence in a highly competitive and fragmented industry, inherent business risks because of sensitive nature of the business, exposure to regulatory risk in overseas, foreign exchange fluctuation risk and trade policies of importing countries.

Key Rating Sensitivities:

Upward Factors:

- Substantial and sustained growth in operating income, operating margin and cash accrual



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- Improvement in working capital management with utilisation of bank borrowings to remain below current levels on a sustained basis
- Improvement in capital structure and debt protection metrics with overall gearing ratio to remain below 1.0x on sustained basis

Downward Factors:

- Moderation in operating income and/or cash accrual impacting the debt protection metrics on a sustained basis
- Stretch in the working capital cycle driven by pile-up of inventory or stretch in receivables
- Any sizeable capital expenditure impacting the financial risk profile, particularly liquidity.
- Deterioration in overall gearing to over 1.5x

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

- **Established track record and longstanding experience of the promoters**

HMA has an established operational track record in the buffalo meat industry with its promoters, one Ahmad family having almost six decades of experience in the industry. Ahmad family, over the years had established healthy relationship with its customers and suppliers. The overall affairs of the company are managed by Mr. Gulzar Ahmed and Mr. Zuliqar Ahmad Qureshi, having experience of more than three decades and their sons, Mr. Wajid Ahmed and Mr. Gulzeb Ahmed having experience of more than two decades. All of them together look after the overall functioning of the company.

- **Proximity of manufacturing facilities to source of raw material**

The Group's plants are located at Aligarh and Agra (Uttar Pradesh) and Dera Bassi (Punjab), which have sizeable buffalo population in India, thereby ensuring easy availability of quality raw material.

- **Debt primarily comprises short-term borrowings; LIBOR-linked interest rates**

The majority of the company's debt is working capital borrowings in the form of export packing credit (EPC). Further, the interest rate linked to the London Interbank Offered Rate



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(LIBOR), resulting in low interest payment obligations. Further, the company has nil long term debt.

- **Stable financial performance marked by improvement in total operating income**

The total operating income of HMA grew at a CAGR of 39.27% with y-o-y growth of ~30% in FY19 to Rs.2782.56 crore due to increase in export of processed meat driven by increased demand. As per Provisional FY20 numbers, the company has reported sales of around Rs.2425.92 crore, down 13% y-o-y due to decline in sale of commercial processed meat during the last 15 days of March 2020 due to lockdown worldwide. However, since the product exported by them is a perishable eatable item, hence, after lockdown, the export of the processed meat again started and HMA has already booked turnover of around Rs.480 crore in Q1FY21.

- **Comfortable capital structure and debt protection metrics**

The company has a comfortable capital structure mainly on account of its satisfactory net worth base of Rs.173.98 crore as on March 31, 2020 (Prov.) and low exposure to borrowings with nil long term debts. The overall gearing ratio of the company remained satisfactory at 0.92x as on March 31, 2020 (0.89x as on March 31,2019). Further, total indebtedness of the company as reflected by the TOL/TNW stood at 1.22x as on March 31, 2020 (2.96x as on March 31,2019).Debt protection parameters marked by interest coverage ratio and Total Debt to GCA remained comfortable at 9.21x and 4.33 years respectively.

- **Efficient working capital management**

HMA manages its working capital efficiently. It allows credit period of around 30-45 days to its customers and maintains inventory of around 7-15 days. The working capital utilisation levels of the company remains moderate as average utilisation levels remained at ~51% during the last 12 months ended May 2020.

- **Stable demand prospects**

The growth opportunity in the export segment is likely to remain stable as India is among the leading buffalo meat exporters in the world.

Key Rating Weaknesses

- **Presence in highly competitive and fragmented industry**

The buffalo meat processing industry is highly fragmented and competitive because of the presence of large organised players and numerous mid-sized players. The competition is further aggravated by exports from other major meat-exporting countries such as Brazil and



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Australia. This keeps the pricing flexibility of the industry participants in check and limits profitability.

- **Inherent business risks because of sensitive nature of the business and regulatory risk in importing countries**

The business is exposed to significant challenges such as disease outbreaks in cattle population. Also, the industry is socially and politically sensitive in the country. Factors such as these can impact the availability and processing of buffalo meat. Moreover, as the company earns a major share of its revenue from the export market, the profitability remains exposed to risk of any adverse regulatory development in the importing country.

- **Exposure to foreign exchange risk and trade policies of importing countries**

Exports constitute ~90% of the company's revenues. It exports processed meat to countries in the Middle East (the UAE, Saudi Arabia, Kuwait, etc.), Vietnam, Thailand, Hong Kong, etc. Given that most of the revenues are contributed by exports, HMA is exposed to foreign currency risk on its exports receivables. It enters into forward or future contracts to hedge its foreign currency exposure.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non-financial Sector)

Liquidity: Strong

The company had generated healthy cash accrual of around Rs.36.95 Cr in FY20 (Prov.) as against its nil repayment obligation. Further, the company is also expected to generate steady cash accrual over the near medium term against nil repayment obligation. Moreover, the company's average utilisation of its bank lines was comfortable, at around 51 per cent over the 12 months ended May 2020 indicating a good liquidity buffer.

About the company

HMA Agro Industries Ltd. (HMA) was established in April, 2008 and started its commercial operation in 2010. HMA has an Abattoir cum Meat Processing plants in disease free zone at AligarhandAgrainthestateofUttarPradeshandoneinDerabassiinthestateofPunjabinIndia. It has export capacity of 1,75,000 MT of frozen HALAL boneless and deglanded Buffalo meat. In order to have effective and hygiene storage of bulk quantities of Frozen Meat, the



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company has established a contemporary warehousing and cold storage wing, which is bestowed with cutting– edge facilities.

Financials: Standalone

(Rs. crore)

For the year ended* / As On	31-03-2019	31-03-2020
	Audited	Provisional
Total Operating Income	2783.56	2425.92
EBITDA	57.22	53.79
PAT	30.79	32.95
Total Debt	124.27	160.00
Tangible Net worth	140.14	173.98
EBITDA Margin (%)	2.06	2.22
PAT Margin (%)	1.11	1.35
Overall Gearing Ratio (x)	0.89	0.92

*Classification as per Infomerics' standards.

Status of non-cooperation with previous CRA: NA

Any other information: NA

Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2020-21)			Rating History for the past 3 years			
		Type	Amount outstanding (Rs. Crore)	Ratings	Date(s) & Rating(s) assigned in 2020-21	Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18
1.	Fund Based Limit	Long-term	160.00	IVR BBB+/ Stable Outlook	-	-	-	-
2.	Proposed Fund Based Limit	Long-term	90.00	IVR BBB+/ Stable Outlook	-	-	-	-
3.	Fund Based Limit*	Short-term	50.00	IVR A2	IVR A2 (September 25, 2020)	-	-	-

*Export packing credit

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.

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About Infomerics:

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Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Long Term Fund Based Limits	-	-	-	160.00	IVR BBB+/Stable Outlook
Long Term Fund Based Limits	-	-	-	90.00	IVR BBB+/Stable Outlook
Short Term Fund Based Limits	-	-	-	50.00	IVR A2