November 08, 2021

# Bikaji Foods International Limited: Ratings reaffirmed

## Summary of rating action

| Instrument* | Previous Rated Amount (Rs. crore) | Current Rated Amount (Rs. crore) | Rating Action |
|---|---|---|---|
| Fund based limits- Cash Credit | 70.00 | 50.00 | [ICRA]AA- (Stable); reaffirmed |
| Fund based limits- Term Loans | 21.50 | 21.50 | [ICRA]AA- (Stable); reaffirmed |
| Non-fund-based Limits | 11.00 | 0.00 | - |
| Fund based limits- Short-term loans (Working Capital Demand Loan or WCDL) | 0.00 | 25.00 | [ICRA]A1+; reaffirmed |
| Unallocated Limits | 44.82 | 50.82 | [ICRA]AA- (Stable)/ [ICRA]A1+; reaffirmed |
| **Total** | **147.32** | **147.32** | |

**Instrument details are provided in Annexure-1*

## Rationale

The rating reaffirmation factors in Bikaji Foods International Limited's (BFIL) sustained healthy operational and financial risk profile, supported by the extensive experience of its promoters in the packaged food industry, its well-entrenched distribution network and deepening market reach across northern India. The ratings note its strong market position on the back of the established Bikaji brand and the company's double-digit revenue growth over the recent years (5-year CAGR of ~19% over FY2016-FY2021), while maintaining healthy profitability. Together with low working capital intensity, it continues to report healthy cash flow from operations, with strong liquidity and credit metrics.

The ratings, however, are constrained by the stiff competition from the branded packaged food players (both large multinationals and large-to-medium-sized domestic players) as well as local sweet/savoury snack manufacturers. Further, as BFIL aims to expand its presence in regions outside its core market of Rajasthan, it is susceptible to market risks given the difference in tastes and consumer preferences across geographies. This apart, the margins remain vulnerable to adverse movements in raw materials, although a strong brand provides some hedge. ICRA notes that adherence to quality standards remain crucial for the company as it operates in the food industry.

The Stable outlook on the [ICRA]AA- rating reflects ICRA's expectation that a continued growth in BFIL's scale and rangebound profitability, together with moderate debt-funded capital expenditure plans, will help it maintain healthy debt coverage metrics.

ICRA notes that the company had received equity infusion from private equity players in the past, exits for which are overdue as per the committed timelines. The exit is to be provided by way of an IPO or sale to any other investor. However, the same has not materialised yet and is expected to materialise in H2 FY2022. Any development on the exit of the existing investor would remain a key monitorable.

# Key rating drivers and their description

## Credit strengths

**Extensive experience of promoters and strong brand recognition –** The promoters of the Bikaji Group have over three decades of experience in the preparation and sales of traditional Indian *namkeens.* It enjoys strong brand presence and customer acceptance in Rajasthan and some other states of India, including Bihar and Assam. Its wide product offerings and established name in traditional *bhujia* and *namkeen* give it a competitive advantage in these markets.

**Widespread distribution network –** BFIL is reasonably well positioned in the domestic market, driven by its brand recognition and widespread distribution network, which enable the company to increase its market penetration. BFIL sells its products through a network of over 800 distributors as well as carrying and forwarding (C&F) agents spread across western and northern India. Together with regular capacity additions and deepening market reach, this has enabled the company to clock a double-digit revenue growth over the recent years (5-year CAGR of ~19% over FY2016-FY2021).

**Strong financial profile –** Given the track record of healthy cash accruals, and accumulation of sizeable net worth over the years, BFIL's dependence upon debt has remained low. As a result, the company's capital structure continues to be strong as reflected in a gearing (Total Debt/ Tangible Net Worth) of 0.15 times as on March 31, 2021 (provisional). Further, low debt levels and healthy profitability translate into robust debt coverage metrics as reflected by DSCR of 7.0 times as on March 31, 2021.

## Credit challenges

**Exposure to intense competition in the fragmented foods industry –** BFIL operates in a fragmented and unorganised food industry, facing competition from local manufacturers (unorganised) as well as established participants (organised) such as Haldiram, Pepsi Co. India, ITC Limited, Balaji Wafers Private Limited, Prataap Snacks Private Limited, etc. This necessitates high selling expenses to maintain market presence. This apart, BFIL's focus on expanding its presence in regions outside its core market of Rajasthan exposes the company to market risks, given the difference in tastes and consumer preferences across geographies.

**Exposure to raw material price risk –** Agricultural products like pulses are BFIL's key raw materials and prices of these products are highly volatile in nature. This exposes the company's margins to adverse movements in raw material prices. However, BFIL's ability to partially pass on the price hikes to its customers due to its reputed brand name and low inventory turnover period mitigate this risk to an extent.

**Quality risks –** Being in the foods industry, quality and reputation risks remain high for the company.

# Liquidity position: Strong

BFIL's liquidity profile remains **strong** on the back of availability of sizeable free cash and fixed deposit balances (in excess of Rs. 100 crore) as on September 30, 2021. It would be incurring a sizeable capex for expansion, including investments in subsidiaries, along with regular maintenance capex in the near to medium term. However, ICRA expects the company's cash flow from operations to remain adequate to fund the proposed investments, margin money for the proposed capex as well as scheduled debt repayments.

## Rating sensitivities

**Positive factors –** The ratings could be upgraded if BFIL demonstrates diversification in its product profile/ geographical reach along with a consistent growth in operating income and healthy profit margins.

**Negative factors** – Pressure on the ratings could arise if there is a material decline in operating income or profit margins, or if a sizeable debt-funded capex or funding support extended to other entities, impacts its liquidity position and credit metrics. Moreover, ROCE below 15%, on a consistent basis, may trigger a rating downgrade.

## Analytical approach

| Analytical Approach | Comments |
|---|---|
| **Applicable Rating Methodologies** | Corporate Credit Rating Methodology |
| **Parent/Group Support** | Not Applicable |
| **Consolidation/Standalone** | The ratings are based on the company's standalone financial profile.<br><br>Over the past two fiscals, BFIL has made sizeable investments in some subsidiaries/ Group companies which are undertaking capital investments to set up snack manufacturing facilities across different geographies. In the absence of consolidated financials, ICRA has reviewed only the standalone financials of the company, while factoring in the investment requirement/ financial support, which is expected to be extended to these entities. Lack of consolidated financials does not make the analysis deficient given that it is the standalone business and balance sheet that principally drive the company's (Group's) credit risk at present, with no operations and no debt availed in any of these subsidiaries/ Group companies. |

## About the company

BFIL (previously Shivdeep Industries Limited) was established in 1986 as a partnership concern and was converted into a limited company in October 1995. The company's manufacturing facilities are located in Bikaner, Rajasthan. It manufactures *bhujia*, *papad*, different types of *namkeens*, *rasgulla*, *gulab jamun*, *sohan papri*, etc. The erstwhile firm used to sell its products under the brand name, Haldiram's. In 1993, a new brand, Bikaji, was developed for its products, which gained a good market reputation in the Indian packaged food market.

## Key financial indicators (audited)

| | FY2020 | FY2021* |
|---|---|---|
| Operating Income (Rs. crore) | 1,073.3 | 1,307.4 |
| PAT (Rs. crore) | 55.5 | 88.5 |
| OPBDITA/OI (%) | 8.7% | 11.2% |
| PAT/OI (%) | 5.2% | 6.8% |
| Total Outside Liabilities/Tangible Net Worth (times) | 0.3 | 0.3 |
| Total Debt/OPBDITA (times) | 0.8 | 0.6 |
| Interest Coverage (times) | 16.9 | 45.0 |

**Based on provisional results*

*PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation*

## Status of non-cooperation with previous CRA: Not applicable

## Any other information: None

## Rating history for past three years

| | Instrument | Current Rating (FY2022) | | | | Chronology of Rating History for the past 3 years | | |
|---|---|---|---|---|---|---|---|---|
| | | Type | Amount Rated (Rs. crore) | Amount Outstanding as of Oct 15, 2021 (Rs. crore) | Date & Rating in | Date & Rating in FY2021 | Date & Rating in FY2020 | Date & Rating in FY2019 |
| | | | | | Nov 8, 2021 | Aug 17, 2020 | Apr 5, 2019 | May 11, 2018 |
| 1 | Fund based limits-Cash Credit | Long Term | 50.00 | - | [ICRA]AA- (Stable) | [ICRA]AA- (Stable) | [ICRA]A+ (Positive) | [ICRA]A+ (Stable) |
| 2 | Term Loans | Long Term | 21.50 | 12.90 | [ICRA]AA- (Stable) | [ICRA]AA- (Stable) | [ICRA]A+ (Positive) | [ICRA]A+ (Stable) |
| 3 | Non-fund-based Limits | Short Term | 0.00 | - | – | [ICRA]A1+ | [ICRA]A1+ | [ICRA]A1 |
| 4 | Short-term loans (WCDL) | Short Term | 25.00 | - | [ICRA]A1+ | – | – | – |
| 5 | Unallocated Limits | Long Term/ Short Term | 50.82 | - | [ICRA]AA- (Stable)/ [ICRA]A1+ | [ICRA]AA- (Stable)/ [ICRA]A1+ | [ICRA]A+ (Positive)/ [ICRA]A1+ | [ICRA]A+ (Stable)/ [ICRA]A1+ |

## Complexity level of the rated instruments

| Instrument | Complexity Indicator |
|---|---|
| LT – Fund based - Cash Credit | Simple |
| LT – Fund based - Term Loans | Simple |
| ST – Fund Based - Short-term loans (WCDL) | Simple |
| LT/ST – Fund based - Unallocated | Not applicable |

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, is available on ICRA’s website: www.icra.ins

### Annexure-1: Instrument details

| ISIN No/Banker Name | Instrument Name | Date of Issuance / Sanction | Coupon Rate | Maturity Date | Amount Rated (Rs. crore) | Current Rating and Outlook |
|---|---|---|---|---|---|---|
| NA | LT – Fund based - Cash Credit | - | - | - | 50.00 | [ICRA]AA- (Stable) |
| NA | LT – Fund based - Term Loans | FY2017 | - | FY2026 | 21.50 | [ICRA]AA- (Stable) |
| NA | ST – Fund Based - Short-term loans (WCDL) | - | - | - | 25.00 | [ICRA]A1+ |
| NA | LT/ST – Fund based - Unallocated | - | - | - | 50.82 | [ICRA]AA- (Stable)/ [ICRA]A1+ |

***Source:*** *BFIL*

### Annexure-2: List of entities considered for consolidated analysis

| Company Name | Ownership | Consolidation Approach |
|---|---|---|
| NA | NA | NA |

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## About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

# ICRA Limited

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