September 06, 2022

Mrs. Bectors Food Specialities Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term fund-based bank facilities (Term loans)	126.0	112.9	[ICRA]AA- (Stable); reaffirmed
Long-term fund-based bank facilities (Cash credit)	35.0	35.0	[ICRA]AA- (Stable); reaffirmed
Short-term fund-based bank facilities	15.0	15.0	[ICRA]A1+; reaffirmed
Short-term non-fund-based bank facilities	13.5	13.5	[ICRA]A1+; reaffirmed
Long-term/Short-term Unallocated	80.5	93.6	[ICRA]AA- (Stable)/[ICRA]A1+; reaffirmed
Total	**270.00**	**270.00**	

Instrument details are provided in Annexure-I

Rationale

The reaffirmation of the ratings of Mrs. Bectors Food Specialities Limited (MBFSL) factors in the continued healthy business and financial risk profiles of the company, supported by its established brands in biscuits and bakery segments, extensive experience of its promoters in the industry, its well-entrenched distribution network and deepening market reach across northern India. The ratings also factor in MBFSL's established relationships with large quick service restaurant (QSR) customers for its institutional bakery items (buns and breads). In FY2022, the company registered a healthy growth of 12% in its operating income on the back of strong recovery seen in the bakery segment (27% increase on a YoY basis). While the company's operating margins were adversely impacted due to inflationary pressure resulting in increased costs, its financial profile continued to be healthy, characterised by substantial cash and investment balances, healthy debt protection metrics and minimal working capital intensity.

The ratings continue to be constrained by MBFSL's exposure to stiff competition from branded as well as local/ regional players, vulnerability of the company's profitability to adverse movements in raw material prices, and high quality/ reputational risks given its presence in the food industry. Despite the efforts made in the recent years to regionally diversify its presence, the company continues to derive most of its revenues from the north Indian states, exposing it to concentration risk.

The Stable outlook reflects ICRA's expectation that MBFSL will maintain a comfortable capital structure and healthy debt coverage metrics, despite regular investments towards capacity expansion. This is expected to be supported by profitable ramp-up of its enhanced capacities, surplus cash flow generation capacity of the business, and a phased capex approach that the company follows.

Key rating drivers and their description

Credit strengths

Healthy operational profile, characterised by well-recognised brands, diversified business presence and established relationships with renowned clients – MBFSL's 'English Oven' and 'Cremica' brands are well recognised in the organised bakery/biscuits industry and enjoy a strong presence and customer acceptance, especially in northern India. Further, the company has a diversified product portfolio in bakery and biscuit segments, with a strong distribution reach and network of distributors, super stockists and retail outlets across the country. The company has also established a diversified manufacturing footprint, with six units in five states. In addition, MBFSL manufactures biscuits under private labelling for Mondelez and other international clients, and supplies buns to institutional clients like McDonalds, KFC, Burger King, etc. Established relationships with a reputed client base ensure regular business, thereby providing steady revenues.

Strong financial risk profile – Despite consistent capex undertaken towards capacity expansion, MBFSL's reliance on term debt has remained limited over the years, supported by healthy cash flow generated from operations. Additionally, the working capital intensity of the business remains low inherently, resulting in low working capital borrowings. Together with consistent accretion to net worth, this translates into a comfortable capital structure, as reflected by gearing of 0.3 times as on March 31, 2022, and Debt/ OPBDITA of 1.1 times in FY2022. Coverage indicators continued to be healthy despite the pressure on profitability seen in FY2022, as indicated by an interest coverage of 17.3 times, and DSCR of 5.5 times in FY2022.

Favourable demand outlook for the packed foods industry – The packaged foods industry is expected to grow at a healthy pace in the future owing to a large population base, rising spending ability, increased consumer consciousness of hygiene and cleanliness, and shift in preference towards branded products. MBFSL is expected to benefit from this growth as it operates in the premium biscuits and breads segment.

Extensive experience of promoters – MBFSL's promoters, Mrs. Rajni Bector (Founder and Chairperson Emeritus), Mr. Anoop Bector and family, have more than two decades of experience in the biscuits and bakery industry. Over the years, Mrs. Bector's English Oven and Mrs. Bector's Cremica have become established brands and enjoy good brand recognition and customer acceptance in northern India.

Credit challenges

Geographical concentration of revenues in northern states – The company generates a substantial portion of its biscuits-segment revenues from north Indian states like Punjab, Jammu & Kashmir, Haryana, Uttar Pradesh, etc, and bakery-segment (retail) revenues from the National Capital Region (NCR). However, the company is gradually expanding its manufacturing network across the country to strengthen its presence in other regions. The company is doubling its bread and buns making capacity in Khopoli (Maharashtra) to deepen its reach in the Mumbai and Pune markets, which have high demand for premium bakery products. Further, with new biscuit capacities proposed to be added in Dhar (Madhya Pradesh), penetration into central, eastern and southern markets will become more feasible in terms of cost economics.

Intense competition from local and other established players – In the breads segment, the company faces stiff competition from local/regional as well as national players as the market remains a fragmented one. In the biscuits segment as well, the company faces stiff competition from established brands like Britannia, Anmol Industries, Mondelez, Parle and ITC, to name a few, given its focus on the mid-premium and premium categories.

Vulnerability of profitability to raw material price increases – Given the intense competition in the segments in which the company operates, it is not possible to immediately and fully pass on any cost increases. As a result, MBFSL's operating profitability remains vulnerable to major changes in raw material prices. This was witnessed in the past fiscal wherein a sharp increase in the prices of palm oil (one of the key raw materials used in manufacturing biscuits), sugar, flour etc. affected its operating margins.

High quality and reputation risks – Being in the food industry, risks related to quality and reputation remain high.

Liquidity position: Strong

MBFSL's liquidity profile is **strong** aided by healthy cash flow generation from operations, moderate debt repayment obligations, and phased capex implementation plans, which are expected to keep the company's reliance on external funding sources low. This is corroborated by healthy liquid balances (of ~Rs. 34 crore as on March 31, 2022) and sparsely utilised working capital limits (average cushion of more than Rs. 40 crore in the fund-based working capital limits in the six-month period ended in July 2022). ICRA expects the company's consolidated cash flows from operations as well as accumulated cash and liquid investments to be sufficient to meet its capex as well as debt servicing requirements in the near-to-medium term.

Rating sensitivities

Positive factors – The long-term rating may be upgraded if the company continues to demonstrate a healthy growth in its operating income (OI) with expansion to new geographies, while improving its profitability and leverage/ coverage metrics. Specific metric, which would be considered for an upgrade, includes ROCE of more than 20% on a sustained basis.

Negative factors – The ratings may be downgraded if there is a material decline in the OI or profit margin, or a sizeable debt-funded capex, impacting its debt protection metrics or liquidity position. Specific metrics that may result in ratings downgrade include total debt/OPBITDA of more than 1.5 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of Mrs. Bectors Food Specialities Limited. As on March 31, 2022, the company had three subsidiaries and an associate that are enlisted in Annexure-2.

About the company

Incorporated in 1995, MBFSL manufactures biscuits and bakery products that are marketed under Mrs. Bector's Cremica and Mrs. Bector's English Oven brands, respectively. MBFSL has manufacturing units at six locations, namely Phillaur (Punjab), Tahliwal (Himachal Pradesh), Rajpura (Punjab), Greater Noida (Uttar Pradesh), Mumbai (Maharashtra), and Bengaluru (Karnataka). The company operates in the consumer segment through its network of distributors and retailers, besides supplying to export markets and catering to institutional customers.

MBFSL was originally established as a joint venture with Quaker Oats for supplying condiments such as ketchup and sauces to McDonalds. The JV partner withdrew in 1999 and in 2007, the biscuits and bakery businesses were transferred to MBFSL through a slump sale. During 2013-2014, the company, pursuant to a business reorganisation scheme, demerged its food supplements (sauces, spreads, and namkeen) division to a separate company named Cremica Food Industries Limited. In December 2020, the company got listed on the Bombay Stock Exchange and the National Stock Exchange.

Key financial indicators (audited)

MBFSL Consolidated	FY2021	FY2022
Operating income	881	988
PAT	72	57
OPBDIT/OI	16.0%	12.4%
PAT/OI	8.2%	5.8%
Total outside liabilities/Tangible net worth (times)	0.6	0.5
Total debt/OPBDIT (times)	0.9	1.1
Interest coverage (times)	14.8	17.3

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs. crore
Note: Total debt includes lease liabilities of ~Rs. 7 crore in FY2022 and ~Rs. 1.5 crore in FY2021

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2023)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding (Rs. crore)*	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020
					Sep 06, 2022	Aug 12, 2021	Aug 28, 2020	May 24, 2019
1	Long-term fund-based bank facilities (Term loans)	Long term	112.9	115.7	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]A+ (Positive)	[ICRA]A+ (Positive)
2	Long-term fund-based bank facilities (Cash credit)	Long term	35.0	-	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]A+ (Positive)	[ICRA]A+ (Positive)
3	Fund-based bank facilities	Short term	15.0	-	[ICRA]A1+	[ICRA]A1+	-	-
4	Non-fund-based bank facilities	Short term	13.5	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
5	Short-term/long-term unallocated limits	Long term/ short term	93.6	-	[ICRA]AA- (Stable)/[ICRA] A1+	[ICRA]AA- (Stable)/[ICRA]A1+	[ICRA]A+ (Positive)/ [ICRA]A1+	[ICRA]A+ (Positive)/ [ICRA]A1+

**Amount outstanding as on March 31, 2022*

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based bank facilities (Term loans)	Simple
Long-term fund-based bank facilities (Cash credit)	Simple
Short -term – Fund Based Bank Facilities	Simple
Short -term –Non-Fund Based Bank Facilities	Very Simple
Short-term/long-term unallocated limits	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 are available on ICRA's website: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Term Loan**	FY2016-FY2022	NA	FY2023-FY2029	112.9	[ICRA]AA-(Stable)
NA	**Cash Credit**	NA	NA	NA	35.0	[ICRA]AA-(Stable)
NA	**Overdraft**	NA	NA	NA	10.0	[ICRA]A1+
NA	**Bank Guarantee**	NA	NA	NA	3.5	[ICRA]A1+
NA	**Letter of Credit**	NA	NA	NA	10.0	[ICRA]A1+
NA	**Export packing credit**	NA	NA	NA	5.0	[ICRA]A1+
NA	**Short-term/long-term unallocated limits**	NA	NA	NA	93.6	[ICRA]AA-(Stable)/[ICRA]A1+

Source: *Company*

Annexure II: List of entities considered for consolidated analysis

Company Name	MBFSL Ownership	Consolidation Approach
Bakebest Foods Private Limited	100%	Full Consolidation
Mrs. Bectors English Oven Limited	100%	Full Consolidation
Mrs. Bectors Food International FZE	100%	Full Consolidation
Cremica Agro Foods Limited	43.09%	Equity Method

Source: *MBFSL Audit Report FY2022*

Note: *ICRA has taken a consolidated view of the parent (MBFSL), its subsidiaries and associates while assigning the ratings.*

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About ICRA Limited:

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