September 29, 2022

Accelerated Freeze Drying Company Limited: Ratings reaffirmed

Summary of rating action

Instrument^	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund based (Term Loans)	USD 1.62 million	USD 0.58 million	[ICRA]BBB- (Stable); Reaffirmed
Short-term – Fund based working capital limits	Rs. 41.50 crore + USD 4.50 million	Rs. 41.50 crore + USD 4.50 million	[ICRA]A3; Reaffirmed
Short-term – Non-fund based limits	Rs. 1.90 crore	Rs. 1.90 crore	[ICRA]A3; Reaffirmed
Long-term – Unallocated limit	USD 0.63 million	USD 1.67 million	[ICRA]BBB- (Stable); Reaffirmed
Total	**Rs. 43.40 crore + USD 6.75 million**	**Rs. 43.40 crore + USD 6.75 million**	

^Instrument details are provided in Annexure-1

Rationale

The ratings reaffirmation continues to factor in a comfortable operational profile of Accelerated Freeze Drying Company Limited (AFDC), characterised by its established presence and an extensive experience of the promoters in the seafood processing industry, especially in the value-added freeze-dried products segment. AFDC's presence in frozen and freeze-dried seafoods and other freeze-dried products (including vegetables, fruits and spices) diversifies the company's revenue stream, to an extent. In addition, the company's continuing linkage with its largest customer, the Nissin Foods Group (holding around 48% share in AFDC), strengthens its operational profile and ensures repeat orders. AFDC commissioned its new plant for frozen seafoods products in November 2021. Sales from the new plant remained moderate in FY2022 but are likely to improve significantly from the current fiscal, which would strengthen the company's revenues and cash accruals.

The ratings, however, are constrained by AFDC's highly working capital-intensive nature of operations, owing to significant inventory and receivables, which exert pressure on its liquidity. The company's debt level has increased consistently in the recent years mainly because of increasing working capital requirement, in tandem with the turnover growth. Its sizeable working capital borrowings and capital-intensive nature of the freeze-drying facility kept the ROCE at a modest level (6.6% in FY2022). The ratings also factor in the susceptibility of AFDC's operating margins to raw material price fluctuations due to firm-price orders received from overseas customers on an annual basis and forex risks arising from an export-oriented nature of its business, though foreign currency loans provide partial natural hedge. Besides, the company remains vulnerable to adverse changes in the export incentives in India and foreign trade policies of importing nations. Any significant reduction in incentive by the Government or adverse changes in the foreign trade policies of the importing nations may affect AFDC's business profile.

The Stable outlook on the long-term rating reflects ICRA's opinion that AFDC's business positioning is likely to remain comfortable, given the company's established track record in seafoods export business and its strategic importance to the Nissin Group, which is AFDC's largest buyer and a shareholder. AFDC's increasing scale of operation is likely to positively impact its profits and cash accruals, going forward.

Key rating drivers and their description

Credit strengths

Diversification into frozen food segment likely to strengthen revenues and cash accruals – The company mainly manufactures freeze-dried products including shrimps, other seafoods, vegetables, fruits and spices in its existing facilities with a combined capacity of 1,040 metric tonnes per annum (MTPA). In November 2021, it commissioned a new facility for producing frozen seafoods, with a capacity of 18,900 MTPA (significantly higher than 4,350 MTPA planned earlier). The revenue from the new plant remained moderate in FY2022 but is likely to improve significantly in the current fiscal. AFDC had orders worth around Rs. 230 crore for the freeze-dried product segment and around Rs. 110 crore for the frozen seafood segment as on April 1, 2022. The company's diversification into the frozen food products is likely to strengthen its revenues and cash accruals.

Established position in the food processing industry and promoters' long experience in the business – The company has an established position as one of the major players in the freeze-dried seafood segment. AFDC's product portfolio primarily comprises high value-added products with healthy demand such as freeze-dried shrimps, fruits, spices and vegetables, which have various usages in the ready-to-eat segment. Commencement of frozen seafoods production has diversified the company's product portfolio. The promoters' long experience of over three decades in the industry and AFDC's established relationships with overseas customers lend strength to its operational profile.

Strategic tie-up with a reputed overseas customer leads to repeat orders – AFDC is a joint venture between the Amalgam Foods Group, based in Kerala, and the Japan-based Nissin Foods Group, which is a renowned player in the ready-to-eat food industry and has presence in many other countries. Nissin Foods Group holds around 48% shares of AFDC and is the largest customer of the company. AFDC's strategic linkage with the reputed Nissin Foods Group ensure repeat orders.

Credit challenges

Susceptible to fluctuation in raw material prices and forex rates, however, foreign currency loans provide some natural hedge – AFDC's main raw materials for the freeze-dried products are sea-caught shrimp, which are available seasonally. Seasonal variation in supply and demand in the market leads to fluctuation in raw material prices, thereby affecting its margins, as the company enters firm-price contracts with its customers on an annual basis. Moreover, increasing revenues from the frozen seafood segment, which fetches lower margins due to relatively lower value addition, is likely to keep the overall operating margin under check, going forward. However, the company sources a significant portion of vegetables and fruits from its own organic farm and through contract farming, which mitigate the raw material price risks for such products. AFDC's profit margins also remain exposed to fluctuation in foreign exchange rates as it derives revenues mainly from exports (94% of sales in FY2022). However, AFDC avails loans mainly in foreign currency, which provide some natural hedge against forex risks.

Exposed to client and geographical concentration risks – AFDC's top five customers contributed 82% to its total sales in FY2022. The share of its sales to the main customer, Nissin Foods Group, stood at 57% during the year, reflecting high client concentration risk. Besides, AFDC remains exposed to geographical concentration risks as the major portion of its exports are made to Japan and North America.

Vulnerable to adverse changes in export incentives and foreign trade policies of importing nations – AFDC is an export-oriented company and thus receives export incentives from the Government of India (GoI), which support its operating profitability. Any significant reduction in incentive rates by the Government or adverse changes in the foreign trade policies of the importing nations may negatively impact AFDC's business profile.

High working capital intensive nature of operations – The company's net working capital relative to the operating income (NWC/OI) stood at a high level of 38% in FY2022 (39% in FY2021) due to sizeable stocking requirements and receivables, exerting pressure on its liquidity and leading to a consistent increase in working capital borrowings in the recent years. Nevertheless, shorter production cycle of the new product line (frozen items) is likely to result in a decline in the company's average inventory days, going forward.

Liquidity position: Adequate

The company's liquidity profile is likely to remain adequate. Its fund flow from operations remained comfortable at around Rs. 11 crore in FY2022, but the cash flow from operations was adversely impacted by a significant increase in working capital requirement with an increase in its scale of operations. In FY2023, despite healthy fund flow from operations, the cash flow from operation is likely to turn negative due to incremental working capital requirement on the back of a significant turnover growth. However, enhanced working capital limits from banks are likely to support the liquidity position to some extent. AFDC is likely to receive a capital investment subsidy of around Rs. 6.5 crore shortly, for its new plant, which would also support its liquidity. The debt repayment obligation for FY2023 stands at around Rs. 8 crore, but the same is likely to decline, going forward. In the current fiscal, the company does not have any major capex plans. Nevertheless, any sizeable debt-funded capex, going forward, may increase the company's overall debt service obligation and adversely impact the liquidity position.

Rating sensitivities

Positive factors – ICRA may upgrade the ratings if the company's profits, cash accruals and liquidity improve significantly on a sustained basis. Specific credit metrics that may lead to ratings upgrade include DSCR of more than 1.6 times on a sustained basis.

Negative factors – Pressure on the company's ratings may arise if there is a deterioration in the company's profitability and liquidity position. A decline in DSCR below 1.3 times on a sustained basis may also result in ratings 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 standalone financial statements of the entity.

About the company

AFDC was incorporated in 1986 in Cochin, Kerala. The company is promoted by Amalgam Foods Limited, Cochin (52% shareholding) in collaboration with Nissin Foods, Hong Kong (27% shareholding) and Nissin Foods, Singapore (21% shareholding). AFDC mainly used to process and export freeze-dried seafood, spices, vegetables and fruits till FY2021 and commenced production of frozen seafoods products on a large scale from FY2022. The company has two existing plants mainly for manufacturing of freeze-dried products in Cochin and Bangalore and commissioned a new plant for frozen items in November 2021. The existing Cochin plant, with a capacity of 650 metric tonnes per annum (MTPA), mainly processes seafood and partly pepper, whereas the Bangalore plant processes herbs, spices, vegetables and fruits with a capacity of 390 MTPA. The new frozen seafood facility, set up in Cochin, has a capacity of 18,900 MTPA.

Key financial indicators (audited)

AFDC (Standalone)	FY2021	FY2022
Operating income	201.0	236.1
PAT	4.8	5.3
OPBDIT/OI	5.8%	6.8%
PAT/OI	2.4%	2.2%
Total outside liabilities/Tangible net worth (times)	1.4	1.5
Total debt/OPBDIT (times)	8.4	6.8
Interest coverage (times)	2.9	3.8

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore

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 as of Mar 31, 2022 (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021		Date & rating in FY2020
					Sep 29, 2022	Aug 26, 2021	Aug 21, 2020	May 08, 2020	Apr 17, 2019
1	Term loans	Long term	USD 0.58 million	USD 0.58 million	**[ICRA]BBB- (Stable)**	**[ICRA]BBB- (Stable)**	**[ICRA]BBB- (Negative)**	**[ICRA]BBB- (Stable)**	**[ICRA]BBB- (Stable)**
2	Fund-based working capital limits	Short term	Rs. 41.50 crore + USD 4.50 million	-	**[ICRA]A3**	**[ICRA]A3**	**[ICRA]A3**	**[ICRA]A3**	**[ICRA]A3**
3	Non-fund based limits	Short term	Rs. 1.90 crore	-	**[ICRA]A3**	**[ICRA]A3**	**[ICRA]A3**	**[ICRA]A3**	**[ICRA]A3**
4	Unallocated limit	Long term	USD 1.67 million	-	**[ICRA]BBB- (Stable)**	**[ICRA]BBB- (Stable)**	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Term loan	Simple
Fund-based working capital (packing credit/bill discounting/bill purchase/bill negotiation/standby limits)	Simple
Non-fund based limits (letter of credit and bank guarantee)	Very simple
Unallocated limit	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: www.icra.in

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
-	Term Loan	May 2019	NA	Sep 2024	USD 0.58 million	[ICRA]BBB- (Stable)
-	Export Packing Credit/Packing Credit Foreign Currency	NA	NA	NA	Rs. 17.50 crore + USD 4.50 million	[ICRA]A3
-	Standby limit	NA	NA	NA	Rs. 4.0 crore	[ICRA]A3
-	Export Bill Purchase/ Discounting	NA	NA	NA	Rs. 10.0 crore	[ICRA]A3
-	Export Bill Negotiation	NA	NA	NA	Rs. 10.0 crore	[ICRA]A3
-	Letter of Credit	NA	NA	NA	Rs. 1.50 crore	[ICRA]A3
-	Bank Guarantee	NA	NA	NA	Rs. 0.40 crore	[ICRA]A3
-	Unallocated limit	NA	NA	NA	USD 1.67 million	[ICRA]BBB- (Stable)

Source: Company

Annexure II: List of entities considered for consolidated analysis: Not applicable

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