

October 28, 2022

Spectra Foods and Beverages Pvt. Ltd.: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term – Fund Based – Cash Credit	5.00	5.00	[ICRA]BBB (Stable); reaffirmed
Long Term – Fund Based – Term Loan	5.17	5.17	[ICRA]BBB (Stable); reaffirmed
Long Term – Unallocated	0.10	0.10	[ICRA]BBB (Stable); reaffirmed
Total	10.27	10.27	

*Instrument details are provided in Annexure-I

Rationale

The rating reaffirmation continues to factor in the extensive track record of Spectra Foods and Beverages Pvt. Ltd. (SFBPL) as a contract manufacturer for Kwality Walls' ice creams, which is owned by Hindustan Unilever Limited (HUL), for the past 25 years. SFBPL has a comfortable financial risk profile with a gearing of 0.21 times, an interest coverage of 7.83 times and Debt/OPBDITA of 0.82 times as on March 31, 2022. The rating considers the low working capital intensity of business owing to timely receipt of payments from HUL, along with low inventory levels maintained by the company on account of the perishable nature of the product.

However, the rating is constrained by SFBPL's modest scale of operations with revenues of Rs. 83.55 crore in FY2022, though the same is expected to increase significantly in FY2023. The rating also considers the high business concentration risk with dependence on a single customer (HUL) as it is the dedicated contract manufacturer of Kwality Walls brand ice creams. Continuation of agreement with HUL would be critical for sustaining operations, which remains a key rating monitorable. Nevertheless, the agreement with HUL has been renewed for the past 25 years, which mitigates the revenue concentration risk to an extent.

The Stable outlook on the [ICRA]BBB rating reflects ICRA's opinion that SFBPL will continue to benefit from the extensive experience of its promoters in the ice cream manufacturing industry and established business relationships with HUL, which will continue to support a steady revenue growth and stable profitability.

Key rating drivers and their description

Credit strengths

Established position as one of the main contract manufacturers for HUL since 1995 – The company commenced ice cream manufacturing in 1984 as a franchisee for Kwality in Andhra Pradesh. Subsequently in 1995, it entered into an agreement with HUL for manufacturing ice creams after HUL took over the Kwality brand. SFBPL is the one of the contract manufacturers of HUL, which has its own plants in Maharashtra, West Bengal and Himachal Pradesh. The company would continue to benefit from the established association with HUL, going forward.

Low working capital intensity – The working capital intensity stood low at -3.18% in FY2022 due to timely receipt of payments from HUL, and low inventory levels owing to the perishable nature of the product. Further, most of the working capital requirements are met by credit period from the suppliers. ICRA believes that prompt payments by HUL and comfortable credit period from the suppliers would support limited working capital intensity for the company.

Comfortable capital structure and healthy debt protection metrics – The gearing remained low at 0.21 times as on March 31, 2022 owing to low debt levels and stable increase in its net worth. The company's debt profile as on March 31, 2022 comprised term loans of Rs. 0.87 crore and unsecured loan from promoters worth Rs. 3.73 crore. The coverage indicators remained healthy with an interest coverage of 7.83 times, TD/OPBDITA of 0.82 times and NCA/TD of 123.11% for FY2022. ICRA estimates that with a steady growth in business from HUL and a stable profitability, the company would maintain healthy debt protection metrics in the future years. Also, with limited capex and fresh borrowings, the capital structure is likely to remain comfortable in the near term.

Credit challenges

Modest scale of operations – The company's revenues improved to Rs. 83.55 crore in FY2022 from Rs. 60.96 crore in FY2021 on account of a significant increase in demand and production levels owing to resumption in business operations post relaxation of the pandemic-induced restrictions. However, in absolute value, the income and profitability of the company remain modest and are likely to remain at these levels in the near term.

Revenue concentration risk – SFBPL is entirely dependent on HUL for its revenues, so continuation of relationship is critical for sustaining its operations. HUL's dependence on SFBPL is limited with three other manufacturing facilities also meeting its ice cream requirements. However, more than two decades of successful business relationship of the company with HUL provides comfort to a large extent.

Liquidity position: Adequate

SFBPL's liquidity position is adequate with an average working capital limit utilisation of 21.43% in the past 18 months ending in September 2022. Further, it has a repayment obligation of Rs. 0.87 crore in FY2023, while the cash accruals are expected to be sufficient for servicing the debt obligations. The company has a moderate capex plan of Rs. 4 crore in the near term and the same is expected to be funded by existing cash balances and unsecured loans from the promoters. The return on investment (capex) incentive received from HUL would provide comfort to the company's liquidity.

Rating sensitivities

Positive factors – The rating could be upgraded if there is a significant increase in the company's scale of operations while maintaining the profit margins on a sustained basis. Also, any material strengthening in the company's net worth would be a credit positive.

Negative factors – The rating could be downgraded if there is a decline in the company's scale of operations or a deterioration in its working capital cycle or non-renewal of agreement with HUL. Specific credit metrics that could lead to a downgrade of SFBPL's rating include interest coverage of less than 3.50 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Not Applicable
Consolidation/Standalone	The rating is based on the company's standalone financial profile.

About the company

Incorporated in September 1982 as V.B.C. Foods Private Limited, the company commenced commercial production in 1984 as a franchisee for Kwality (Mumbai). Later, it was renamed as Spectra Foods and Beverages Pvt. Ltd. (SFBPL), when it entered into a contract with HUL to manufacture and supply ice creams after the takeover of Kwality by HUL in 1995. SFBPL has a manufacturing unit at Vijayawada, Andhra Pradesh, which is managed by Mr. M. Srinivas, who has over 25 years of experience in the ice cream business. The installed capacity of the facility stood at 21.9 million litres per annum in FY2022.

In FY2022, the company reported a net profit of Rs. 2.76 crore on an operating income of Rs. 83.55 crore compared to a net profit of Rs. 2.36 crore on an operating income of Rs. 60.96 crore in the previous year.

Key financial indicators (audited)

SFBPL Standalone	FY2020	FY2021	FY2022
Operating income	73.56	60.96	83.55
PAT	1.46	2.36	2.76
OPBDIT/OI	6.09%	9.21%	6.72%
PAT/OI	1.99%	3.88%	3.30%
Total outside liabilities/Tangible net worth (times)	1.18	1.30	1.26
Total debt/OPBDIT (times)	1.99	1.23	0.82
Interest coverage (times)	5.11	6.06	7.83

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

Source: ICRA Research, Company Data

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2023)		Chronology of rating history for the past 3 years			
		Amount rated (Rs. crore)	Amount outstanding (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020
				Oct 28, 2022	Nov 03, 2021	Nov 12, 2020	Feb 06, 2020
1 Fund Based – Cash Credit	Long Term	5.00	--	[ICRA]BBB(Stable)	[ICRA]BBB(Stable)	[ICRA]BBB-(Positive)	[ICRA]BBB-(Positive)
2 Fund Based – Term Loan	Long Term	5.17	0.87	[ICRA]BBB(Stable)	[ICRA]BBB(Stable)	[ICRA]BBB-(Positive)	[ICRA]BBB-(Positive)
3 Unallocated	Long Term	0.10	--	[ICRA]BBB(Stable)	[ICRA]BBB(Stable)	[ICRA]BBB-(Positive)	[ICRA]BBB-(Positive)

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long Term – Fund Based – Cash Credit	Simple
Long Term – Fund Based – Term Loan	Simple
Long Term – Unallocated	NA

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
NA	Fund Based – CC	NA	NA	NA	5.00	[ICRA]BBB (Stable)
NA	Fund Based – TL	2018	8.75%	FY2024	5.17	[ICRA]BBB (Stable)
NA	Unallocated	NA	NA	NA	0.10	[ICRA]BBB (Stable)

Source: Company

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

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