

July 20, 2023

Mrs. Bectors Food Specialities Limited: Ratings reaffirmed; outlook revised to Positive

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)	112.9	224.5	[ICRA]AA- (Positive); reaffirmed; outlook revised to Positive from Stable
Long-term fund-based bank facilities (Cash credit)	35.0	40	[ICRA]AA- (Positive); reaffirmed; outlook revised to Positive from Stable
Short-term fund-based bank facilities	15.0	--	--
Short-term non-fund-based bank facilities	13.5	5.5	[ICRA]A1+; reaffirmed
Long-term/Short-term Unallocated	93.6	--	
Total	270.00	270.00	

*Instrument details are provided in Annexure-I

Rationale

The revision in the outlook on the long-term rating of Mrs. Bectors Food Specialities Limited (MBFSL) reflects ICRA's expectation of continued improvement in 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 wide market reach across northern India. The ratings also factor in MBFSL's established relationships with reputed institutional clients for biscuit exports under private labelling, and large Quick Service Restaurant (QSR) customers for its institutional bakery items (buns and breads). In FY2023, the company registered a healthy growth of 41% in its operating income, led by a strong YoY segmental growth in both its bread and bakery segments. With the ongoing capacity enhancements in both breads and bakery businesses, the company is expected to have adequate surplus capacity to scale up over the medium term as well as regionally diversify its presence, as its presence has largely remained concentrated in the northern states till now.

A sustained growth in revenues together with healthy profitability, inherently low working capital requirements of the business and phased capacity expansions have supported the company's cash flows over the years, keeping its reliance on debt limited. Along with sustained accretion to reserves, this has resulted in a sustained improvement in the company's capitalisation and coverage metrics over the past few years. The ratings also continue to draw strength from the company's well-recognised brands in northern India, its strong distribution network, and its established relationships with reputed institutional clients for biscuit exports, sales of buns and private labelling. The ratings also continue to factor in the extensive experience of MBFSL's promoters in the food-processing industry, the company's regionally diversified manufacturing base across five states and favourable growth prospects for the industry. The ratings, however, remain constrained by 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 the presence in the food industry. Despite efforts made in the recent years to regionally diversify its presence, the company continues to derive most of its revenues from the northern Indian states, exposing it to the concentration risk.

The ratings continue to be constrained by its 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 MBFSL's presence in the food industry. Despite 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 the geographical concentration risk.

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 have 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 northern states of 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, supplies buns to institutional clients like McDonalds, KFC, Burger King, etc and has a diversified exports presence with the segment contributing more than ~25% to the company's overall revenues in the recent fiscals. 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 the net worth, this translates into a comfortable capital structure, as reflected by a gearing of 0.2 times as on March 31, 2023, and Debt/ OPBDITA of 0.7 times in FY2023. Despite the increase in interest costs, the coverage indicators continued to be healthy on the back of correction in key raw material prices, resulting in higher margins and profitability, as indicated by an interest coverage of 13.6 times, and DSCR of 3.8 times in FY2023.

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 a 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 was founded by Mrs. Rajni Bector (Chairperson Emeritus). Its promoters, Mr. Anoop Bector and family have more than three 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. Further, in the recent past, the company has also strengthened its leadership and operational teams as it onboarded experienced professionals at various positions (including CEO, IT, marketing and supply chain heads), which is expected to further support the company's strategy of expanding its presence across various geographies in the medium term.

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 expanding its bread and buns making capacity in Khopoli (Maharashtra) to deepen its reach in Mumbai and Pune markets, which have high demand for premium bakery products. Further, with new biscuit capacities coming up 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. As witnessed in the past fiscals, 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 – As the company operates in the food industry, risks related to quality and reputation remain high.

Environmental and Social Risks

FMCG companies remain exposed to the impact of changes in environmental norms with respect to the treatment of manufacturing residual discharge/waste. Accordingly, MBFSL could face operational disruptions if regulatory norms are not complied with. Further, with increasing awareness and restrictions on usage of different grades of plastics for packaging and finding environment-friendly solutions, the company's cost structure may be impacted. There is also a trend towards using organically grown input materials. Such developments can potentially increase costs for FMCG companies like MBFSL. As the company has considerable dependence on agri commodities, the company remains exposed to agro-climatic risks, which could result in variations in crop output/prices. Overall, entities in the FMCG industry have a low exposure to environmental risks, further supported by their better pricing power, reflected in their ability to pass on the increase in costs over time.

On the social front, the FMCG sector has a prominent dependence on human capital, in terms of direct and indirect employees as well as contractual labour. Further, there could be quality concerns that FMCG entities like MBFSL could face, which could adversely impact its brand, or risks that an entire product category could face out of the social considerations that pertain to health consciousness. While these risks are product category-specific, the overall exposure of the FMCG sector to social risks remains low to moderate.

Liquidity position: Adequate

MBFSL's liquidity profile is **adequate** 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 limited. This is corroborated by healthy liquid balances (liquid investments and free cash and bank balances of ~Rs. 76 crore as on March 31, 2023) and sparsely utilised working capital limits (average cushion of more than Rs. 30 crore in fund-based working capital limits in the six-month period ended in March 2023). ICRA expects the company's consolidated cash flow 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 in 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, 2023, 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	FY2022	FY2023
Operating income	988	1,362
PAT	57	90
OPBDIT/OI	12.4%	12.9%
PAT/OI	5.8%	6.6%
Total outside liabilities/Tangible net worth (times)	0.5	0.5
Total debt/OPBDIT (times)	1.1	0.7
Interest coverage (times)	17.3	13.6

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	Type	Current rating (FY2024)		Chronology of rating history for the past 3 years			
		Amount rated (Rs. crore)	Amount outstanding (Rs. crore)*	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
				July 20, 2023	Sep 06, 2022	Aug 12, 2021	Aug 28, 2020
1 Long-term fund-based bank facilities (Term loans)	Long term	224.5	115.9	[ICRA]AA- (Positive)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]A+ (Positive)
2 Long-term fund-based bank facilities (Cash credit)	Long term	40	5.1	[ICRA]AA- (Positive)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]A+ (Positive)
3 Fund-based bank facilities	Short term	--	-	-	[ICRA]A1+	[ICRA]A1+	-
4 Non-fund-based bank facilities	Short term	5.5	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
5 Short-term/long-term unallocated limits	Long term/ short term	--	-	-	[ICRA]AA- (Stable)/[ICRA] A1+	[ICRA]AA- (Stable)/[ICRA] A1+	[ICRA]A+ (Positive)/ [ICRA]A1+

*Amount outstanding as on March 31, 2023

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 –Non-Fund Based Bank Facilities	Very Simple

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	Long-term fund-based bank facilities (Term loans)	FY2016-FY2022	NA	FY2023-FY2029	224.5	[ICRA]AA-(Positive)
NA	Long-term fund-based bank facilities (Cash credit)	NA	NA	NA	40.00	[ICRA]AA-(Positive)
NA	Short-term non-fund-based bank facilities	NA	NA	NA	5.5	[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 FY2023

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

ANALYST CONTACTS

Jayanta Roy

+91 33 7150 1100

jayanta@icraindia.com

Kaushik Das

+91 33 7150 1104

kaushikd@icraindia.com

Vipin Jindal

+91 124 4545 355

vipin.jindal@icraindia.com

Devanshu Gupta

+91 124 4545 321

devanshu.gupta@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar

+91 22 6114 3406

shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani

Tel: +91 124 4545 860

communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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



Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45



Branches



© Copyright, 2023 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.