May 23, 2024

Bikaji Foods International Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term – Fund based limits-Cash Credit	80.00	80.00	[ICRA]AA- (Stable); reaffirmed
Long term – Fund based - Term Loans	43.18	43.18	[ICRA]AA- (Stable); reaffirmed
Long term/Short term – Unallocated Limits	24.14	24.14	[ICRA]AA- (Stable)/ [ICRA]A1+; reaffirmed
Total	**147.32**	**147.32**	

**Instrument details are provided in Annexure-I*

Rationale

The ratings reaffirmation for Bikaji Foods International Limited (BFIL) factors in the improvement in operational and financial risk profiles in FY2023 and 9M FY2024 and expectation of a sustained improvement over the medium term, supported by synergies from the recently added capacities under the production linked investment (PLI) scheme. Also, receipt of PLI incentives would support its operating margins over the medium term. The ratings continue to remain 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 also consider BFIL's strong market position on the back of the established 'Bikaji' brand and healthy revenue growth in the recent years [5-year CAGR of over 20% ending in FY2024 (estimated)], while maintaining profitability. Together with low working capital intensity, it continues to report healthy cash flow from operations, and has strong liquidity and credit metrics.

The ratings, however, remain constrained by the stiff competition from other branded packaged food players (both large multinationals and large-to-medium-sized domestic players) as well as regional snack manufacturers, which also enjoy relatively better product diversity. As BFIL aims to expand its product offerings and presence in regions outside its core markets of Rajasthan, Bihar and Assam, it is susceptible to market risks, given the difference in tastes and consumer preferences across geographies. These apart, the margins remain vulnerable to adverse movements in raw materials, although a strong brand provides some hedge. Adherence to quality standards remains crucial for the company, which is inherent to its line of business in the food industry.

The Stable outlook on the long-term rating reflects ICRA's expectation that BFIL will be able to sustain its revenue growth and operating metrics. Further, the outlook underlines ICRA's expectation that the entity's incremental capex, if any, to further expand its capacity will be funded in manner that it is able to durably maintain its debt protection metrics commensurate with the existing rating.

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. ICRA notes that BFIL has also ventured into other product segments like sweets, papad, western snack, frozen food and healthy snacks to diversify its portfolio.

Wide distribution network but high dependence on the Rajasthan sub-market – BFIL is reasonably well positioned in the domestic market, driven by its brand recognition and wide distribution network, which enable the company to increase its market penetration. BFIL sells its products through a network of over ~2.4 lakh listed number of outlets and indirect distributors as well as carrying and forwarding (C&F) agents spread across 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 (4-year CAGR of ~22% over FY2019-FY2023). However, ICRA notes the concentration of revenues in the North region (~55% over the last five years, majorly from the Rajasthan market). Though BFIL had ventured into tie-ups and setting up manufacturing units in other states, the ramp-up of operations, and market share gains in the new states would be monitored, going forward.

Strong financial and operational profiles – BFIL has diversified manufacturing capabilities across varied locations in India spread over seven owned manufacturing units and two contract manufacturing units. ICRA notes that BFIL targets to increase its market share in its focus geographies (Punjab, Haryana, Delhi, Uttar Pradesh, Karnataka and Telangana), for which it has added facilities in some of these locations. However, these are yet to become significant revenue generators. Given the track record of healthy cash accruals and accumulation of sizeable net worth over the years, BFIL's dependence on debt has remained low. As a result, the company's capital structure continues to be strong, as reflected by a gearing (Total Debt/ Tangible Net Worth) of 0.2 times as on March 31, 2023 and September 30, 2023. Further, low debt levels and healthy profitability translate into robust coverage metrics, as reflected by an interest coverage of 19.1 times and 29.9 times as well as DSCR of 5.9 times and 5.7 times as on March 31, 2023 and September 30, 2023, respectively. Receipt of PLI incentives would support its operating margins over the medium term. Overall, ICRA expects BFIL's debt metrics and coverage metrics to continue to remain strong.

Credit challenges

Exposed 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 outside its core market of Rajasthan exposes the company to market risks, given the difference in tastes and consumer preferences across geographies. The company's ability to manage these risks with better product diversity will be monitored.

Vulnerability of earnings to fluctuation in raw material prices – 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 hike to its customers due to its reputed brand name and low inventory turnover period mitigate this risk to an extent.

Exposure to quality risks – Quality and reputation related risks remain high for the company as it belongs to the foods industry.

Environmental and Social Risks

Environmental considerations – The food processing business remains indirectly exposed to physical climate risks, which could result in variations in availability of raw materials (such as grains, sugar, edible oil, etc.). There is also a trend towards using organically grown input materials. Such developments can potentially increase costs for FMCG companies. As BFIL has a healthy dependence on agricultural commodities, the company remains exposed to agro-climatic risks, which could result in variations in crop output/prices. The company also remains exposed to the impact of changes in environmental norms with respect to the treatment of manufacturing waste/ residual discharge. Further, increasing awareness and restrictions on usage of different grades of plastics for packaging and the need to find eco-friendly solutions could impact BFIL's cost structure. As per disclosures in its annual report for FY2023, the company has entered into an arrangement with a waste management company to strategise innovative ways to bring environmental solutions and manage plastic waste on behalf of the company. Overall, entities in the sector have low exposure to environmental risk, supported further by their better pricing power, reflected in their ability to pass on the increase in costs over time.

Social considerations: The sector has significant dependence on human capital, in terms of direct and indirect employees as well as contractual labour. Being an interplay of manufacturing and services business, maintaining healthy relationships with employees (and retaining talent) as well as the suppliers is essential for disruption free operations. Also, there are quality concerns that entities like BFIL could face, which might adversely impact its brand, or the risk 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 sector to social risks remains low to moderate.

Liquidity position: Strong

BFIL's liquidity profile remains strong, supported by sizeable free cash and fixed deposit balances (in excess of Rs. 200 crore) as on May 9, 2024 and a cushion in the fund-based working capital limits, which stood at ~25% of the sanctioned lines on an average during the last six months ending in March 2024 (equivalent to ~Rs.20 crore). BFIL does not have any major capex plan in the near-to-medium term. BFIL's repayment obligations stand at ~Rs. 24.4 crore (consolidated) in FY2025, however, ICRA expects its cash accruals and the cash buffer held to be sufficient for servicing the debt repayment obligations.

Rating sensitivities

Positive factors – The ratings could be upgraded if BFIL can diversify its product profile/ geographical reach besides recording a consistent growth in its operating income and maintaining healthy profit margins.

Negative factors – The ratings could be downgraded if there is a material decline in the operating income or the profit margin, or if a sizeable debt-funded capex or funding support extended to other entities, impacts its liquidity position and credit metrics. Specific credit metrics like Total Debt/OPBITDA over 1.8 times, on a sustained basis, may trigger ratings downgrade.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology FMCG
Parent/Group support	Not Applicable
Consolidation/Standalone	The ratings are based on the consolidated financial profile of the company. Details of the subsidiaries have been given in Annexure-II.

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. Subsequently, its shares got listed on BSE and NSE in November 2022. BFIL has seven manufacturing units, out of which five are in Bikaner, Rajasthan, one in Assam and one in Maharashtra. It manufactures bhujia, papad, different types of namkeens, sweets, western snack 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 established a good reputation in the Indian packaged food market.

Key financial indicators (audited)

Consolidated	FY2022	FY2023	9M FY2024*
Operating income	1,611.0	1,966.1	1,714.9
PAT	76.0	126.6	147.2
OPBDIT/OI	8.9%	10.9%	13.3%
PAT/OI	4.7%	6.4%	8.6%
Total outside liabilities/Tangible net worth (times)	0.3	0.3	-
Total debt/OPBDIT (times)	1.1	0.8	-
Interest coverage (times)	19.8	19.1	28.5

*Source: Company, ICRA Research; *Provisional numbers; All ratios as per ICRA's calculations; Amount in Rs. crore*
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 (FY2025)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Dec 31, 2023 (Rs. crore)	Date & Rating in FY2025	Date & Rating in FY2024	Date & Rating in FY2023	Date & Rating in FY2022
					May 23, 2024	--	Feb 23, 2023	Nov 8, 2021
1	Fund based limits- Cash Credit	Long Term	80.00	-	[ICRA]AA- (Stable)	–	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)
2	Term Loans	Long Term	43.18	36.49	[ICRA]AA- (Stable)	–	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)
3	Non-fund-based Limits	Short Term	0.00	-	–	–	–	–
4	Short-term loans (WCDL)	Short Term	0.00	-	–	–	–	[ICRA]A1+
5	Unallocated Limits	Long Term/ Short Term	24.14	-	[ICRA]AA- (Stable)/ [ICRA]A1+	–	[ICRA]AA- (Stable)/ [ICRA]A1+	[ICRA]AA- (Stable)/ [ICRA]A1+

Complexity level of the rated instrument

Instrument	Complexity Indicator
Long Term – Fund based limits- Cash Credit	Simple
Long term – Fund based - Term Loans	Simple
Long term/Short 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	Long Term – Fund based limits- Cash Credit	NA	NA	NA	80.00	[ICRA]AA- (Stable)
NA	Long term – Fund based - Term Loans	FY2017	NA	FY2026	43.18	[ICRA]AA- (Stable)
NA	Long term/Short term – Unallocated Limits	NA	NA	NA	24.14	[ICRA]AA- (Stable)/ [ICRA]A1+

Source: *BFIL*

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Petunt Food Processors Private Limited	51.22%	Proportionate Consolidation
Vindhyawasini Sales Private Limited	100.00%	Full Consolidation
Bikaji Maa Vindhyawasini Sales Private Limited	51.00%	Proportionate Consolidation
Bhujialalji Private Limited	49.00%	Proportionate Consolidation
Bikaji Mega Food Park Private Limited	51.00%	Proportionate Consolidation
Bikaji Foods International USA Corp	100.00%	Full Consolidation

Source: *BFIL*

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About ICRA Limited:

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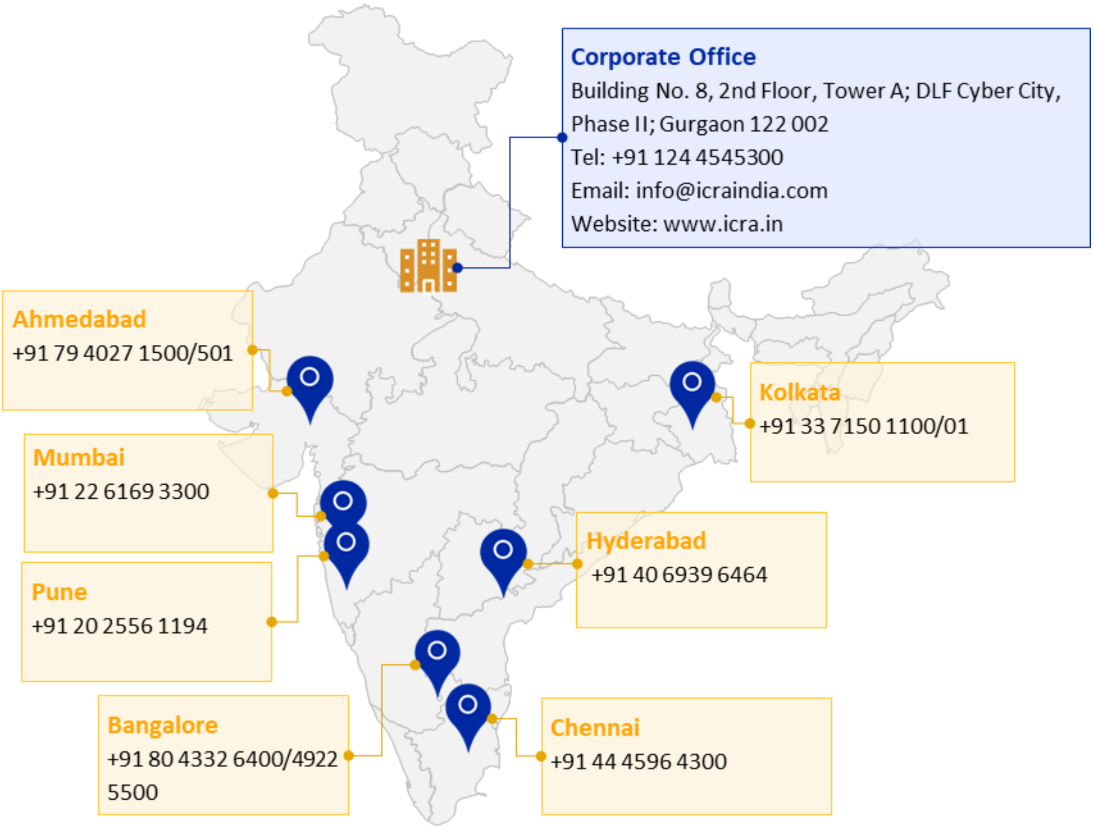

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