Mrs. Bectors Food Specialities Limited

February 21, 2018

Summary of rated instruments

Instrument	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based Term Loan	59.5	145.3	[ICRA]A+ (Stable); Reaffirmed
Fund-based Working Capital Facilities	27.0	40.0	[ICRA]A+ (Stable); Reaffirmed
Non-fund Based Working Capital Facilities	17.5	14.0	[ICRA]A1+; Reaffirmed
Unallocated Bank Limits	60.0	0.7	[ICRA]A+ (Stable)/[ICRA]A1+; Reaffirmed
Total	**164.0**	**200.0**	

Rating action

ICRA has reaffirmed the long-term rating of [ICRA]A+ (pronounced ICRA A plus) and short-term rating of [ICRA]A1+ (pronounced ICRA A one plus) to the Rs. 200.0-crore[1] bank limits (enhanced from Rs. 164.0-crore) of Mrs. Bectors Food Specialities Limited (MBFSL)[2]. The outlook on the long-term rating is Stable.

Rationale

The rating actions factor in the extensive experience of MBFSL's promoters in the food-processing industry, its strong brand and well-entrenched distribution network in key operating markets of northern India, its presence across diversified sales channels such as retail sales of biscuits and breads, institutional sales of buns, private labelling and exports. The company's long relationship with reputed institutional customers such as McDonald's Corporation, ITC Limited, Burger King India, KFC India and Mondelez India Foods Limited ensures repeat business. The ratings also consider the healthy capital structure of the company with gearing of 0.27 times, and strong debt-protection metrics marked by interest cover of 13.6 times, Debt/OPBDITA of 0.93 times, NCA/Debt of 77% and DSCR of 4.6 times as on March 31, 2017. ICRA also notes that the company is undertaking a capex for expansion of its manufacturing capacities of biscuits and bakery in Rajpura and Greater Noida. Although the debt funding for this will add to the company's leverage levels, the capital structure is not expected to deteriorate materially. Moreover, steady profitability coupled with inherently low working-capital intensive nature of operations results in strong cash-flow generation and comfortable liquidity position.

The ratings, however, are constrained by the intense competition in the domestic biscuit/breads market due to the presence of a few dominant players and numerous regional players. This coupled with slowdown in the domestic biscuits industry has put pressure on volumes. In the institutional bakery division also, the volume growth has remained sluggish due to muted growth in the quick-service restaurant (QSR) segment. These factors have resulted in subdued growth in operating income (OI) over the last two years. The ratings are further constrained by susceptibility of the company's profitability to raw material prices as witnessed in FY2017 when margins declined to 11.1% from 12.9% in FY2016. Moreover, the company operates in the food industry and hence quality remains an important factor.

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[1] *100 lakh = 1 crore = 10 million*

[2] *For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications*

Going forward, the company's ability to grow its revenues and improve its profitability post the completion of a capex, while maintaining its credit metrics will remain the key rating sensitivities.

Outlook: Stable

The Stable outlook reflects ICRA's expectation that MBFSL will be able to grow its turnover at a steady pace along with maintaining its profitability. This will support the debt-coverage indicators, despite capacity expansion plans.

Key rating drivers

Credit strengths

Extensive experience of promoters – MBFSL's promoters, Mrs. Rajni Bector and Mr. Anoop Bector and family members, have more than two decades of experience in the biscuits and bakery industry.

Strong recognition of the 'English Oven' and 'Cremica' brands in the biscuits/bakery market of North India – The company's brand, 'English Oven', is well recognised in the breads and bakery segment, while 'Cremica' is established brand in the biscuits market and enjoys good brand recognition and customer acceptance in northern India. However, it faces stiff competition from other established brands as well as local players.

Well-entrenched distribution network – MBFSL sells its products through a network of super-stockists, distributors and retailers spread across northern India. The established distribution network of the Group and strong brand recognition makes it relatively easier for the company to introduce new products.

Long relationships with clients provide revenue visibility – MBFSL manufactures biscuits under private labeling for ITC and Mondelez. This apart, it supplies buns to institutional clients like McDonalds, KFC, Burger King etc. Strong relationships with a reputed client base ensure regular business, thereby providing stability to the OI to some extent.

Low working-capital intensity of operations and healthy liquidity position – Working-capital intensity of the business inherently remains low. Due to the perishable nature of inventory, the company's overall inventory levels remain low. This, coupled with the low credit period offered, reduces the receivables levels as well. Low working-capital intensity coupled with low debt repayment has translated into healthy liquidity position.

Strong capital structure; coverage indicators remain robust – The total debt on the books of the company stood at Rs. 64.2 crore as on March 31, 2017 against Rs. 49.7 crore as on March 31, 2016. Despite the increase, the debt levels remained low. This, coupled with healthy accretion to reserves, resulted in strong capital structure as reflected by gearing of 0.27 times as on March 31, 2017. Further, coverage indicators remained robust as indicated by interest coverage of 13.6 times, NCA/Debt of 77%, Debt/OPBDITA of 0.93 times and DSCR of 4.6 times as on March 31, 2017.

Credit challenges

Sizeable capex plans to increase reliance on debt; coverage indicators likely to remain healthy – MBFSL is undertaking sizeable debt-funded capex, which will increase the debt levels. However, the capital structure is expected to remain healthy and the credit metrics are not expected to deteriorate materially.

Susceptibility of profitability to raw-material price changes – The profitability of the company remains exposed to raw-material price fluctuations, as witnessed in FY2017 when operating margins declined to 11.1% from 12.9% in FY2016. This was primarily due to a steep increase in the prices of sugar, milk, oil and flour.

Competition from local manufacturers and established players – Despite having a well-established brand, MBFSL is not insulated from competition. The company continues to remain exposed to intense competition from local manufacturers of biscuits and bakery products and established participants like Britannia, ITC, Harvest Gold etc.

Quality risks – Given the company's operations in the food industry, risks regarding quality and reputation remain high.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria:

Corporate Credit Rating Methodology

About the company

MBFSL was established in 1995 as a joint venture (JV) with Quaker Oats for supplying condiments such as ketchup and sauces to McDonalds. It gradually added buns, batter, and bread to its portfolio. The JV partner withdrew from MBFSL in 1999 and in 2007 the biscuits and bakery business was transferred to MBFSL through 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.

As a result, MBFSL now manufactures biscuits and bakery products that are marketed under Mrs. Bectors Cremica and Mrs. Bector's English Oven brand, respectively. MBFSL has five manufacturing locations namely Phillaur, Tahliwal, Noida, Mumbai (housed under its wholly-owned subsidiary, Bakebest Foods Private Limited), and Bangalore. It is setting up a new facility in Rajpura. The company operates in consumer segment through its network of distributors and retailers besides supplying to export markets and catering to institutional customers.

In FY2017, the company reported a net profit of Rs. 28.1 crore on an OI of Rs. 620.0 crore compared with a net profit of Rs. 39.9 crore on an OI of Rs. 582.6 crore in the previous year.

Key financial indicators (audited)

	FY2016	FY2017
Operating Income (Rs. crore)	582.6	620.0
PAT (Rs. crore)	39.9	28.1
OPBDIT/OI (%)	12.8%	11.1%
RoCE (%)	26.8%	17.8%
Total Debt/TNW (times)	0.24	0.27
Total Debt/OPBDIT (times)	0.66	0.93
Interest Coverage (times)	13.68	13.62
NWC/OI (%)	6%	7%

Source: MBFSL Annual Reports

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

		Current Rating (FY2018)				Chronology of Rating History for the past 3 years			
			Amount Rated	Amount Outstanding as on December 2017	Date & Rating	Date & Rating in FY2017		Date & Rating in FY2016	Date & Rating in FY2015
	Instrument	Type	(Rs. crore)	(Rs. crore)	February 2018	December 2016	October 2016	August 2015	-
1	Term Loans	Long Term	145.3	73.8	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	-
2	Cash Credit	Long Term	40.0	-	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	
3	Letter of Credit & Bank Guarantee	Short Term	14.0	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	-
4	Unallocated limits	Long/ Short Term	0.7	-	[ICRA]A+ (Stable)/ [ICRA]A1+	[ICRA]A+ (Stable)/ [ICRA]A1+	[ICRA]A+ (Stable)/ [ICRA]A1+	[ICRA]A+ (Stable)/ [ICRA]A1+	-

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loan 1	FY2013	9.20%	FY2018	3.5	[ICRA]A+ (Stable)
NA	Term Loan 2	FY2016	8.25%	FY2022	42.6	[ICRA]A+ (Stable)
NA	Term Loan 3	FY2018	8.25%	FY2023	29.2	[ICRA]A+ (Stable)
NA	Term Loan 4	FY2018	8.25%	FY2025	70.0	[ICRA]A+ (Stable)
NA	Cash Credit	NA	NA	-	40.0	[ICRA]A+ (Stable)
NA	Working Capital Demand Loan*	NA	NA	-	14.0	[ICRA]A1+
NA	Unallocated Limits	NA	NA		0.7	[ICRA]A+ (Stable)/ [ICRA]A1+

Source: Mrs. Bectors Food Specialities Ltd.

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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.

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