Bikaji Foods International Limited

May 11, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term Loans	76.51	66.32	[ICRA]A+ (Stable); upgraded from [ICRA]A (Stable)
Fund Based Limits	59.00	70.00	[ICRA]A+ (Stable); upgraded from [ICRA]A (Stable)
Unallocated Amount	0.49	-	NA
Non-Fund Based Limits	14.00	11.00	[ICRA]A1; Reaffirmed
Total	**150.00**	**147.32**	

Rating action

ICRA has revised its long-term rating to [ICRA]A+ (pronounced ICRA A plus) from [ICRA]A (pronounced ICRA A) on the Rs. 66.32-crore[1] (reduced from Rs. 76.51-crore) term loans, Rs. 70-crore (enhanced from Rs. 59-crore) fund-based working capital facilities of Bikaji Foods International Limited (BFIL)[2]. ICRA has also reaffirmed its short-term rating of [ICRA]A1 (pronounced ICRA A one) on the Rs. 11-crore non-fund based facilities of BFIL. The outlook on the long-term rating is Stable.

Rationale

The long-term rating upgrade positively factors in the strong growth in BFIL's operating income (OI) and consistent improvement in its profitability metrics, which combined with the low working capital intensity of the business, have led to strong cash flow generation. The ratings also factor in the company's established Bikaji brand and its proven track record as a manufacturer of packaged food products in the country. Furthermore, a strong liquidity profile (given the significant cash and bank balance) and low gearing provide considerable financial flexibility to the company. Moreover, equity infusion and steady cash accruals have prevented the debt levels from increasing substantially despite significant capital expenditure in the last five years. Further, the ratings continue to derive comfort from low client-concentration risks, extensive experience of promoters as well as the company's strong and established distribution network.

However, increased competition as the company aims to enter and establish its presence in newer markets to scale up production in the new facility raises concerns. BFIL operates in a fragmented and unorganised food industry, wherein it faces competition from local manufacturers as well as organised players. This can impact its profitability and working capital cycle as it tries to gain market share. ICRA notes that the company's strong liquidity profile, well-recognised Bikaji brand and stable demand for products will partly mitigate the risk.

Outlook: Stable

The Stable outlook reflects ICRA's expectation that BFIL will continue to report healthy OI growth, while maintaining robust profitability and a healthy liquidity position. Further, ICRA believes that BFIL will continue to benefit from its established track record and its unique position in the *bhujia* and *namkeen*-manufacturing business.

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

The outlook may be revised to Positive if BFIL significantly improves its liquidity position or increases its scale of operations and profitability at a pace higher than ICRA's estimates, along with comfortable debt protection indicators. The outlook may be revised to Negative in case of deterioration in profitability and/or elongation of working capital cycle.

Key rating drivers

Credit strengths

Strong growth in OI and consistent improvement in profitability – BFIL's OI has witnessed strong year-over-year growth in 9M FY2018, chiefly backed by substantial growth in volumes (due to enhanced capacity) and increase in its market penetration (led by extensive distribution network). BFIL's operating profitability has also improved to 13.6% in 9M FY2018 from 12.1% in FY2017 due to better operational efficiency (backed by new fully-automated facility) and economies of scale. Improvement in profitability was also aided by favourable raw material prices during the year. The strong growth in BFIL's OI and consistent improvement in its profitability metrics, combined with the low working-capital intensity of the business, have led to strong cash flow generation.

Extensive experience of promoters in *bhujia* and *namkeen*-manufacturing business – The promoters of the Bikaji Group have over three decades of experience in the preparation and sales of traditional Indian *bhujia* and *namkeen.* Starting from Rajasthan, the Group has expanded its business to other states of India, including Bihar and Assam.

Reputed brand name – Bikaji is an established name in the *bhujia* and *namkeen* business and enjoys a strong brand presence 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.

Comfortable capital structure and coverage indicators – Equity infusion (in FY2015) and steady cash accruals from business have resulted in comfortable gearing and coverage indicators despite substantial capital expenditure in the past five years.

Substantial financial flexibility – A strong liquidity profile (given significant cash and bank balance) and comfortable gearing impart ample financial flexibility to the company.

Widespread distribution network – BFIL sells its products through an extensive network of over 700 distributors as well as carrying and forwarding (C&F) agents spread across western and northern India. The well-entrenched distribution network and brand recognition of the Bikaji brand makes it relatively easier for the company to increase its market penetration. Further, owing to large and distributed customer base it enjoys strong bargaining power with its customers (i.e. distributors).

Focus on quality and taste results in steady demand – Quality and taste remain important rating sensitivities for the food business. BFIL is comfortably placed in this respect as is evident from its long track record of sustained growth in revenues and profitability.

Credit challenges

Exposure to intense competition as BFIL aims to increase market penetration in more states – To gain market share in more states, the company will have to face competition from the incumbent players (both organised and unorganised) and it may incur higher advertising and selling expenses in the near-to-medium term. In addition, relaxed credit terms to distributors/dealers can have an adverse impact on the working capital cycle.

Moderate exposure to increase in raw material prices – Agricultural products are the key raw materials for the company and prices of these products are highly volatile in nature. This exposes the company's margins to adverse movement in raw material prices. However, BFIL's ability to partially pass on the cost increases to its customers and low inventory period mitigate this risk to an extent.

Fragmented nature of the foods industry with several unorganised players – BFIL operates in a fragmented and unorganised food industry, wherein it faces competition from local manufacturers as well as organised players. This can impact the company's profitability and working capital cycle as it tries to gain market share. However, its strong liquidity profile, well-recognised Bikaji brand and stable demand for products will partly mitigate the risk.

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

BFIL (previously Shivdeep Industries Limited) was established in 1986 as a partnership concern and was converted into a limited company in October 1995. The company's manufacturing facilities are in Bikaner, Rajasthan. It produces *bhujia*, *papad*, different type of *namkeens*, *rasgulla*, *gulab jamun*, *sohan papri* etc. The erstwhile firm used to sell its products under the brand name Haldiram. From 1993, a new brand name – Bikaji – was developed for its products that gained a good market reputation in the Indian food market. The company is promoted by Mr. Shiv Ratan Agarwal, who has over three decades of experience in production and marketing of food items.

Key Financial Indicators

	FY2017 Audited	9M FY2018 Provisional
Operating Income (Rs. crore)	610.0	578.8
PAT (Rs. crore)	43.8	43.8
OPBDIT/OI (%)	12.1%	13.6%
RoCE (%)	22.7%	26.7%
Total Debt/TNW (times)	0.51	0.46
Total Debt/OPBDIT (times)	1.8	1.8
Interest Coverage (times)	21.7	22.1
NWC/OI (%)	6.7%	5.8%

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

Instrument	Type	Current Rating (FY2019) Amount Rated (Rs. crore)	Amount Outstanding as on FY2018 end (Rs. crore)	Date & Rating in FY2019 May 2018	Chronology of Rating History for the past 3 years Date & Rating in FY2018 June 2017	Date & Rating in FY2017 July 2016	Date & Rating in FY2016 October 2015
Term Loans	Long Term	66.32	66.32	**[ICRA]A+ (Stable)**	**[ICRA]A (Stable)**	**-**	**-**
Fund Based Limits	Long Term	70.00	53.62	**[ICRA]A+ (Stable)**	**[ICRA]A (Stable)**	**[ICRA]A (Stable)**	**[ICRA]A (Stable)**
Non-Fund Based Limits	Short Term	11.00	3.78	**[ICRA]A1**	**[ICRA]A1**	**-**	**[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	August 2013	9.75%	June 2019	1.41	[ICRA]A+ (Stable)
NA	Term Loan 2	June 2014	9.75%	March 2022	1.46	[ICRA]A+ (Stable)
NA	Term Loan 3	June 2014	9.75%	June 2021	3.48	[ICRA]A+ (Stable)
NA	Term Loan 4	August 2015	9.75%	September 2018	1.18	[ICRA]A+ (Stable)
NA	Term Loan 5	April 2017	9.75%	March 2023	26.46	[ICRA]A+ (Stable)
NA	Term Loan 6	March 2017	9.00%	January 2023	1.57	[ICRA]A+ (Stable)
NA	Term Loan 7	October 2016	9.75%	September 2021	0.07	[ICRA]A+ (Stable)
NA	Term Loan 8	September 2016	9.00%	July 2021	3.63	[ICRA]A+ (Stable)
NA	Term Loan 9	November 2015	9.00%	October 2019	13.33	[ICRA]A+ (Stable)
NA	Term Loan 10	June 2017	8.55%	May 2019	0.11	[ICRA]A+ (Stable)
NA	Term Loan 11	May 2017	8.25%	May 2019	0.81	[ICRA]A+ (Stable)
NA	Buyers Credit	November 2015	NA	November 2018	11.47	[ICRA]A+ (Stable)
NA	Buyers Credit	November 2015	NA	November 2018	1.34	[ICRA]A+ (Stable)
NA	Fund Based Limits	NA	NA	NA	70.00	[ICRA]A+ (Stable)
NA	Non-Fund Based Limits	NA	NA	NA	11.00	[ICRA]A1

Source: BFIL

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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.

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

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