ICRA

Bikaji Foods International Limited

April 05, 2019

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund based- Cash Credit	70.00	70.00	[ICRA]A+; reaffirmed; Outlook revised to Positive from Stable
Fund based- Term Loans	66.32	53.94	[ICRA]A+; reaffirmed; Outlook revised to Positive from Stable
Non-fund based Facilities – LC/BG	11.00	11.00	[ICRA]A1+; upgraded from [ICRA]A1
Unallocated Limits	0.00	12.38	[ICRA]A+(Positive); Reaffirmed; outlook revised from Stable/[ICRA]A1+; upgraded from [ICRA]A1
Total	**147.32**	**147.32**	

**Instrument details are provided in Annexure-1*

Rationale

The upgrade in the short-term rating and revision of outlook on the long-term rating takes into account the equity infusion in Bikaji foods International Limited (BFIL) by IIFL Special Opportunities Fund in May 2018. The equity infusion has resulted in reduction in debt levels and improvement in gearing to 0.2 times as on December 31, 2018 from 0.5 times as on March 31, 2018. The ratings also factor in the steady growth in BFIL's operating income (OI) and its healthy profitability levels. These have resulted in robust internal accrual generation which, coupled with the inherently low working capital intensity of business, translates into strong cashflow from operation. The steady cash flows have been utilised to fund the capex, thereby limiting reliance on debt. These factors, along with the equity infusion, have increased the financial flexibility as reflected by the sizeable cash balances of Rs. 113 crore as on December 2018 and led to robust debt coverage indicators as reflected by interest coverage of 26.8 times, total debt/OPBDITA of 0.8 times and NCA/debt of 93% as on December 31, 2018. The ratings continue to be supported by the extensive experience of BFIL's promoters, its well-entrenched distribution network across northern India, and its market position in the packed food industry on the back of the established Bikaji brand. Going forward, the expansion of manufacturing capacities, geographical expansion, and steady demand are expected to drive revenue growth.

The ratings, however, are constrained by BFIL's exposure to stiff competition from branded packaged food players (both large multinationals and large-to-medium-sized domestic players) as well as local sweet/savoury snack manufacturers. The margins remain vulnerable to adverse movements in raw materials, although a strong brand provides some hedge. Further, as the company aims to penetrate deeper into the markets outside Rajasthan, it will face competition from the existing players (both organised and unorganised) in these markets. This may entail higher selling-related expenses, which might impact its profitability to an extent, as witnessed in 9M FY2019. ICRA also notes that quality would remain crucial for the company as it operates in the food industry.

The ability of the company to maintain growth in turnover as well as steady profitability along with expansion in new territories remain the key rating sensitivities. Moreover, the quantum and funding of capital expenditure and deployment of the healthy liquidity will be closely monitored.

Outlook: Positive

The Positive outlook reflects ICRA's expectation that BFIL will continue to benefit from its established brand equity and report healthy revenue growth, as well as maintain its profitability and healthy liquidity position. Further, steady demand for packaged foods driven by increasing affordability, urbanisation, changing lifestyles/customer preferences, better product and packaging innovation, and favourable demographics, translate into relatively low business risks for the company. The outlook may be revised to Stable if the revenue growth and cash accruals are lower than expected, or if any major capital expenditure, or stretch in the working capital cycle, weakens liquidity.

Key rating drivers

Credit strengths

Equity infusion leading to improvement in capital structure and debt coverage indicators in current fiscal – With fresh equity infusion of Rs. 118 crore in May 2018 by IIFL Special Opportunities Fund and steady accretion to reserves, BFIL's dependence on external debt has reduced significantly. This has resulted in marked improvement in its capital structure, with gearing of 0.2 times as on December 31, 2018 against 0.5 times as on March 31, 2018. Further, a decline in debt levels and healthy profitability have improved debt coverage metrics, as reflected by debt/OPBDITA of 0.8 times as on December 31, 2018 (1.4 times as on March 31, 2018) and interest coverage of 26.8 times (21.6 times as on March 31, 2018).

Strong growth in revenues – BFIL's OI has witnessed strong year-over-year growth in FY2018 (29%) and 9M FY2019 (17%), chiefly backed by growth in volumes (due to healthy demand and enhanced capacities) and increase in its market penetration (led by extensive distribution network).

Strong liquidity position – Robust growth in BFIL's OI over the years, coupled with healthy profitability metrics, along with inherently low working capital intensity of the business, have led to steady cash flow generation. The company has free cash and bank balances to the tune of Rs. 113 crore as on December 31, 2018, which highlights its robust liquidity position.

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.* Over this period, Bikaji has become an established name in the *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.

Widespread distribution network – BFIL sells its products through a network of over 800 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.

Credit challenges

Exposure to competition as BFIL aims to increase market penetration in more states – As the company aims to gain market share in newer markets outside Rajasthan, it will face competition from the existing players (both organised and unorganised). It may incur higher selling expenses to establish itself in these new markets, which might impact its profitability (as was witnessed in 9M FY2019). The company's OPBDITA/OI declined to 10.6% in 9M FY2019 from 12.7% in FY2018.

Fragmented nature of food industry with several unorganised players – BFIL operates in a fragmented and unorganised food industry, wherein it faces competition from local manufacturers as well as established participants like Haldiram, Pepsi Co. India, ITC Limited, Balaji Wafers Private Limited, Prataap Snacks Private Limited, etc.

Exposure to raw material price risk – Agricultural products like pulses 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 due to its reputed brand name and low inventory period mitigate this risk to an extent.

Quality risks - Being in the foods industry, quality and reputation risks remain high for the company.

Liquidity position

BFIL's liquidity profile remains robust on account of steady growth in OI over the years, along with inherently low working capital intensity of business and strong cash flow generation. Moreover, the company has healthy cash balances to the tune of Rs. 113 crore as on December 31, 2018, which coupled with adequate cushion in fund based limits (Rs. 16.8 crore undrawn limits as on December 31, 2018), highlights the strong liquidity position.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not applicable
Consolidation / Standalone	Standalone

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 located in Bikaner, Rajasthan. It manufactures *bhujia*, *papad*, different types of *namkeens*, *rasgulla*, *gulab jamun*, *sohan papri*, etc. The erstwhile firm used to sell its products under the brand name, Haldiram. In 1993, a new brand name, Bikaji, was developed for its products that gained a good market reputation in the Indian packaged food market.

For FY2018, BFIL reported profit after tax (PAT) of Rs. 53.0 crore on OI of Rs. 783.0 crore against PAT of Rs. 43.8 crore on an OI of Rs. 608.1 crore in FY2017.

Key financial indicators (audited) - BFIL

	Audited FY2017	Audited FY2018	Provisional 9M FY2019
Operating Income (Rs. crore)	608.1	783.0	676.1
PAT (Rs. crore)	43.8	53.0	38.5
OPBDITA/OI (%)	12.1%	12.7%	10.6%
RoCE (%)	22.9%	22.8%	18.5%
Total Debt/TNW (times)	0.5	0.5	0.2
Total Debt/OPBDITA (times)	1.9	1.4	0.8
Interest Coverage (times)	21.7	21.6	26.8

Source: BFIL's annual reports, ICRA research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

	Current Rating (FY2020)				Chronology of Rating History for the past 3 years		
Instrument	**Type**	**Amount Rated (Rs. crore)**	**Amount Outstanding (Rs. crore)**	**Date & Rating in FY2020 April 2019**	**Date & Rating in FY2019 May 2018**	**Date & Rating in FY2018 June 2017**	**Date & Rating in FY2017 July 2016**
Term Loans	Long Term	53.94	32.58	[ICRA]A+ (Positive)	[ICRA]A+ (Stable)	[ICRA]A (Stable)	-
Fund Based Limits	Long Term	70.00	-	[ICRA]A+ (Positive)	[ICRA]A+ (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)
Non-Fund Based Limits	Short Term	11.00	-	[ICRA]A1+	[ICRA]A1	[ICRA]A1	-
Unallocated Limits	Long Term/ Short Term	12.38	-	[ICRA]A+ (Positive)/ [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 loans	FY2017	-	FY2026	53.94	[ICRA]A+ (Positive)
NA	Fund-based limits	-	-	-	70.00	[ICRA]A+ (Positive)
NA	Non-fund based limits	-	-	-	11.00	[ICRA]A1+
NA	Unallocated limits				12.38	[ICRA]A+ (Positive)/ 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.

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