May 24, 2019

Mrs. Bectors Food Specialities Limited: Ratings reaffirmed; outlook revised to positive; rated amount enhanced

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund based - Cash Credit	40.0	45.0	[ICRA]A+ (Positive); rating reaffirmed, outlook revised from Stable
Fund based - Term Loans	145.3	148.0	[ICRA]A+ (Positive); rating reaffirmed, outlook revised from Stable
Non-fund based Facilities – LC/BG	14.0	22.0	[ICRA]A1+; Reaffirmed
Unallocated Limits	0.7	0.0	-
Total	**200.0**	**215.0**	

**Instrument details are provided in Annexure-1*

Rationale

The revision in the outlook factors in the steady revenue growth over the last two years and that expected over the medium term with enhanced manufacturing capacities driving the growth in volumes. The consumer-facing businesses, namely domestic and international biscuits, as well as domestic bakery have all demonstrated healthy growth in FY2019. The institutional businesses also continue to perform steadily. Going forward as well, the company is expected to witness steady revenue growth on the back of its established brand, distribution reach, and continued relations with the institutional clients. The ratings also take into account the healthy internal accrual generation led by steady profitability levels, which coupled with the low working capital intensity of business, translates into strong cashflow from operations. These factors have translated into comfortable debt coverage indicators as reflected by interest coverage of 9.8 times, debt/OPBDITA of 1.7 times, NCA/debt of 42% and DSCR of 3.6 times as on December 31, 2018. Going forward, the management has no plans for major capex in the medium term. Thus, the healthy cash flow generation is expected to result in a reduction in debt levels and further improvement in coverage indicators.

The ratings continue to factor in the extensive experience of MBFSL's promoters in the food-processing industry; its presence across diversified sales channels such as retail sales of biscuits and breads, institutional sales of buns, private labelling and exports, which acts as a mitigant against slowdown in any particular segment. Also, the company's diversified manufacturing base; and its long relationship with reputed institutional customers such as McDonald's Corporation, ITC Limited, Burger King India, KFC India and Mondelez India Foods Limited support the ratings. Further, the demand for packed foods are expected to grow steadily driven by the population base, increasing spending ability, and shift towards branded consumption

The ratings, however, are constrained by MBFSL's exposure to stiff competition from branded players like Britannia Industries Ltd., ITC, Parle Agro Pvt Ltd., Anmol Industries Ltd., Harvest Gold Industries Pvt. Ltd., Modern Foods India Ltd., etc., many of which have much a larger scale as well as more deeply entrenched brands. Moreover, a large unorganised segment with strong local presence adds to the competition, making revenue growth and profitability challenging. Further, the margins remain vulnerable to adverse movement in raw materials, although a strong brand provides some hedge. Further, the majority of the retail sales of the company are generated in northern India, indicating geographical concentration. Continuation of the past trend of consistent capex to expand manufacturing capacities can exert pressure on the debt coverage metrics. The ratings also factor in that quality would remain a risk 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, the quantum and the funding of capital expenditure going forward will remain the key rating sensitivities.

Outlook: Positive

The Positive outlook reflects ICRA's expectation that MBFSL will continue to benefit from its established brand, and report healthy revenue growth, while maintaining its profitability and healthy liquidity position. Further, steady demand for branded packaged foods driven by increasing affordability, urbanisation, changing lifestyles/customer preferences, better product and packaging innovation, and favourable demographics, translates into relatively low business risk for the company despite intense competition. The outlook may be revised to Stable if the revenue growth and the 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

Extensive experience of promoters and brand recognition – 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. Over this period, Mrs. Bector's English Oven and Mrs. Bector's Cremica have become established brands in the bakery and biscuits business and enjoy good brand recognition and customer acceptance in northern India. However, these brands face stiff competition from other established brands as well as local players.

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

Diversified business presence – The company operates in two segments – biscuits and bakery. The sales channel is quite diversified and includes selling of domestic branded biscuits (37% of total sales in FY2018), exporting of branded biscuits (12%), biscuit exports under private label (20%), contract manufacturing of biscuits (6%), branded domestic bakery (11%) and institutional bakery (13%).

Strong capital structure; robust coverage indicators – The total debt on the books of the company stood at Rs. 165.6 crore as on December 31, 2018 against Rs. 134.1 crore as on March 31, 2018. Despite the increase, the capital structure remained comfortable as reflected by gearing of 0.56 times as on December 31, 2018 (provisional). Further, coverage indicators remained robust as indicated by interest coverage of 9.8 times, NCA/debt of 42%, debt/OPBDITA of 1.7 times and DSCR of 3.6 times as on December 31, 2018.

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

Expansive manufacturing footprint – The manufacturing facilities of the company are located in North (Punjab and UP), West (Maharashtra) and South India (Karnataka). Along with a well-diversified manufacturing footprint, the company has dedicated production lines for different business segments.

Credit challenges

Increased reliance on debt due to sizeable capex plans – MBFSL completed a sizeable debt-funded capex, which resulted in an increase in the debt levels to Rs. 165.6 crore as on December 31, 2018 from Rs. 64.2 crore as on March 31, 2017. Although this led to the tapering of the capital structure and debt coverage indicators to some extent, the credit metrics remained healthy and are expected to improve going forward.

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

Competition from local manufacturers and established players – The industry is highly competitive with the presence of branded players like Britannia, ITC, Parle, Modern, Harvest Gold, Anmol Industries, etc. Some of these players have a large scale of operations, a pan-India presence and well-established brands. Apart from these, the company is also exposed to competition from a large localised unorganised segment.

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

Liquidity position

Despite sizeable capex, the liquidity profile of the company remains adequate as the business has inherently low working capital intensity and the cash flow generation remains strong. Moreover, the company had free cash balances to the tune of Rs. 7 crore as on December 31, 2018, which coupled with cushion in the fund-based limits (Rs. 13-crore undrawn limits as on December 31, 2018), highlights the adequate liquidity position.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	[Corporate Credit Rating Methodology]()
Parent/Group Support	NA
Consolidation / Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of Mrs. Bectors Food Specialities Limited; as on March 31, 2018, the company had two subsidiaries Bakebest Foods Private Limited and Mrs. Bectors English Oven Limited and an associate – Cremica Agro Foods Limited, that are listed in Annexure-2.

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 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. Bector's Cremica and Mrs. Bector's English Oven brands, respectively. MBFSL has six manufacturing locations namely Phillaur, Tahliwal, Rajpura, Greater Noida, Mumbai (housed under its wholly-owned subsidiary, Bakebest Foods Private Limited), and Bengaluru. The company operates in consumer segment through its network of distributors and retailers besides supplying to export markets and catering to institutional customers.

In FY2018, the company reported a net profit of Rs. 36.0 crore on an OI of Rs. 690.6 crore compared with a net profit of Rs. 28.8 crore on an OI of Rs. 624.7 crore in the previous year.

Key financial indicators (audited) – MBFSL Consolidated

	FY2017	FY2018
Operating Income (Rs. crore)	624.7	690.6
PAT (Rs. crore)	28.8	36.0
OPBDITA/OI (%)	11.1%	12.2%
RoCE (%)	17.9%	19.9%
Total Debt/TNW (times)	0.27	0.50
Total Debt/OPBDIT (times)	0.92	1.59
Interest Coverage (times)	15.41	14.60

Source: MBFSL's annual reports, ICRA research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

	Instrument	Current Rating (FY2020) Type	Amount Rated (Rs. crore)	Amount Outstanding as on December 2018 (Rs. crore)	Date & Rating May 2019	Chronology of Rating History for the past 3 years: Date & Rating in FY2018 February 2018	Date & Rating in FY2017 December 2016	Date & Rating in FY2017 October 2016	Date & Rating in FY2016 August 2015
1	Term Loans	Long Term	148.0	128.2	[ICRA]A+ (Positive)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)
2	Cash Credit	Long Term	45.0	-	[ICRA]A+ (Positive)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)
3	Letter of Credit & Bank Guarantee	Short Term	22.0	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
4	Unallocated limits	Long/ Short Term	0.0	-	-	[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 Loans	FY2016-FY2019	8.25%-8.75%	FY2023-FY2026	148.0	[ICRA]A+ (Positive)
NA	Cash Credit	NA	NA	-	45.0	[ICRA]A+ (Positive)
NA	Working Capital Demand Loan*	NA	NA	-	22.0	[ICRA]A1+

Source: Mrs. Bectors Food Specialities Ltd

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Bakebest Foods Private Limited	100.00%	Full Consolidation
Mrs. Bectors English Oven Limited	100.00%	Full Consolidation
Cremica Agro Foods Limited	44.95%	Equity Method

Source: Mrs. Bectors Food Specialities Ltd

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