August 17, 2020

Bikaji Foods International Limited: Long-term rating upgraded to [ICRA]AA-(Stable); short-term rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund based- Cash Credit	70.00	70.00	[ICRA]AA-; upgraded from [ICRA]A+; Outlook revised to Stable from Positive
Fund based- Term Loans	53.94	21.50	[ICRA]AA-; upgraded from [ICRA]A+; Outlook revised to Stable from Positive
Non-fund based Facilities – LC/BG	11.00	11.00	[ICRA]A1+; reaffirmed
Unallocated Limits	12.38	44.82	[ICRA]AA-; upgraded from [ICRA]A+; Outlook revised to Stable from Positive/ [ICRA]A1+; reaffirmed
Total	**147.32**	**147.32**	

**Instrument details are provided in Annexure-1*

Rationale

The long-term rating upgrade factors in the strong growth in Bikaji Foods International Limited's (BFIL) operating income (OI) and consistent healthy cash flow from operations, besides strong liquidity and credit metrics. Further, in the recent times, the packaged snack food industry has been witnessing healthy demand and the same is likely to continue in the medium term. In fact, the company has reported healthy sales growth of around 20% in Q1 FY2021, even though the manufacturing operations were halted in the first two weeks of April pursuant to the nationwide lockdown due to Covid-19. Moreover, the liquidity position has remained strong with availability of cash balances of more than Rs. 100 crore as on March 31, 2020, along with cushion in the form of undrawn fund based limits to the tune of around Rs. 50 crore. The debt levels have remained low, which has translated into healthy debt coverage indicators as reflected by interest coverage of 17.9x, total debt/OPBDITA of 0.8x and NCA/total debt of 112% for March 31, 2020. 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 packaged food industry on the back of the established Bikaji brand.

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. Over the last two years, the margins have witnessed moderation with an increase in employee expenses as well as selling and marketing expenses as the company is expanding its geographical presence. ICRA also notes that adherence to quality standards would remain crucial for the company as it operates in the food industry.

The Stable outlook on the rating factors in ICRA's expectation that the company will be able to register healthy growth in its OI and generate healthy cash flow from operations, along with maintaining a strong liquidity position.

Moreover, there was an equity infusion in the company by IIFL Special Opportunities Fund in May 2018, with committed investment horizon of two years, extendable by one year. The company was to provide an exit to the fund by way of IPO or sale to any other investor. However, the same has not materialised and is unlikely to happen by May 2021. While ICRA notes that the investor is not looking at an exit in the near term, any adverse development on this front would remain a key monitorable.

Key rating drivers and their description

Credit strengths

Consistent healthy growth in OI – BFIL's OI witnessed strong year-over-year growth in FY2020 (19%), primarily backed by a healthy growth in volumes with a consistent improvement in demand and capacities as well as deeper market penetration. The company has registered an OI growth of 20% in Q1 FY2021, despite the nationwide lockdown. The growth is likely to continue over the medium term as BFIL diversifies its geographic presence across identified territories.

Strong liquidity position – Consistent growth in BFIL's OI over the years, along with inherently low working capital intensity of the business, has resulted in healthy cash flow from operations. Moreover, the company has free cash and bank balances of more than Rs. 100 crore as on March 31, 2020 and unutilised fund-based limits of around Rs. 50 crore, which indicates its strong liquidity position.

Strong capital structure and robust debt coverage indicators – With the equity infusion in FY2019, the company's capital structure improved and continues to be strong with low debt levels as reflected by gearing of 0.15 times as on March 31, 2020 (provisional). Further, low debt levels and adequate profitability have translated into robust debt coverage metrics as reflected by debt/OPBDITA of 0.8 times, interest coverage of 17.9 times and NCA/total debt of 112% as on March 31, 2020. With expectations of low debt levels alongside steady operating profits and cash generation, the debt coverage metrics are expected to remain strong over the medium term.

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 faces competition from the existing players (both organised and unorganised). This results in it incurring higher selling expenses to establish itself in these new markets. In fact, the company's operating profit margins declined to 9% in FY2020 from 10.3% in FY2019.

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 movements 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.

Uncertainty around exit of IIFL Fund – The committed investment period for the equity infusion by IIFL Fund will get over by May 2021, and by then the company has to provide an exit to the investor by way of IPO or sale to some other investor. However, none of these is likely in the near term, which raises concerns on the exit of the investor. However, ICRA notes that the investor is not looking at exit in the near term.

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

Liquidity position: Strong

BFIL's liquidity profile remains **strong** as reflected by sizeable cash balances of more than Rs. 100 crore as on March 31, 2020, along with cushion in the fund based limits, which are sparsely utilised (Rs. 49.64-crore undrawn limits as on March 31, 2020). Further, healthy cash flow generation and inherently low working capital intensity of the business aid the liquidity position of the company.

Rating sensitivities

Positive triggers – The ratings could be upgraded if BFIL demonstrates diversification in its product profile and geographical reach along with a consistent growth in OI with healthy profit margins.

Negative triggers – Pressure on rating could arise if there is a material decline in OI or profit margins, or a sizeable debt-funded capex or support extended to other entities, which may impact its 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's. In 1993, a new brand, Bikaji, was developed for its products, which gained a good market reputation in the Indian packaged food market.

For FY2019, BFIL reported profit after tax (PAT) of Rs. 51.0 crore on OI of Rs. 902.2 crore against PAT of Rs. 53.0 crore on an OI of Rs. 783.0 crore in FY2018. The company reported (PAT) of Rs. 51.3 crore on OI of Rs. 1073.3 crore in FY2020 (provisional).

Key financial indicators (audited)

	Audited FY2019	Provisional FY2020
Operating Income (Rs. crore)	902.2	1073.3
PAT (Rs. crore)	51.0	51.3
OPBDIT/OI (%)	10.3%	9.0%
PAT/OI (%)	5.7%	4.8%
Total Outside Liabilities/Tangible Net Worth (times)	0.34	0.32
Total Debt/OPBDIT (times)	0.81	0.80
Interest Coverage (times)	23.04	17.89

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2021)				Rating History for the Past 3 Years		
		Type	Amount Rated	Amount Outstanding	Rating	FY2020	FY2018	FY2017
					17-Aug-2020	05-Apr-2019	11-May-2018	21-Jun-2017
1	Term Loans	Long Term	21.50	21.50	[ICRA]AA- (Stable)	[ICRA]A+ (Positive)	[ICRA]A+ (Stable)	[ICRA]A (Stable)
2	Fund Based limits	Long Term	70.00	-	[ICRA]AA- (Stable)	[ICRA]A+ (Positive)	[ICRA]A+ (Stable)	[ICRA]A (Stable)
3	Non-Fund Based Limits	Short Term	11.00	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1	[ICRA]A1
4	Unallocated Limits	Long Term/ Short Term	44.82	-	[ICRA]AA- (Stable)/ [ICRA]A1+	[ICRA]A+ (Positive)/ [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	FY2017	-	FY2026	21.50	[ICRA]AA- (Stable)
NA	Fund-based limits	-	-	-	70.00	[ICRA]AA- (Stable)
NA	Non-fund based limits	-	-	-	11.00	[ICRA]A1+
NA	Unallocated limits				44.82	[ICRA]AA- (Stable)/A1+

Source: Bikaji Foods International Limited

Analyst Contacts

Sabyasachi Majumdar
+91-124-4545304
sabyasachi@icraindia.com

Anupama Arora
+91 124-4545 303
anupama@icraindia.com

Ankit Jain
+91-124-4545865
ankit.jain@icraindia.com

Sundeep Yadav
+91 124-4545 817
sundeep.yadav@icraindia.com

Relationship Contact

Jayanta Chatterjee
+91 80 4332 6401
jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries:

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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

ICRA Limited

Corporate Office
Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002
Tel: +91 124 4545300
Email: info@icraindia.com
Website: www.icra.in

Registered Office
1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001
Tel: +91 11 23357940-50

Branches

Mumbai + (91 22) 24331046/53/62/74/86/87
Chennai + (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,
Kolkata + (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,
Bangalore + (91 80) 2559 7401/4049
Ahmedabad+ (91 79) 2658 4924/5049/2008
Hyderabad + (91 40) 2373 5061/7251
Pune + (91 20) 2556 0194/ 6606 9999