

August 26, 2021

Accelerated Freeze Drying Company Limited: Ratings reaffirmed; outlook on the long-term rating revised to Stable

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund based (Term Loans)	\$2.25 million	\$1.62 million	[ICRA]BBB- reaffirmed; outlook revised to Stable from Negative
Short-term – Fund based working capital limits	Rs. 41.50 crore +\$4.50 million	Rs. 41.50 crore +\$4.50 million	[ICRA]A3 reaffirmed
Short-term – Non-fund based limits	Rs. 1.90 crore	Rs. 1.90 crore	[ICRA]A3 reaffirmed
Long-term – Unallocated limit	-	\$0.63 million	[ICRA]BBB- reaffirmed; outlook revised to Stable from Negative
Total	Rs. 43.40 crore + \$6.75 million	Rs. 43.40 crore + \$6.75 million	

*Instrument details are provided in Annexure-1

Rationale

The revision in the outlook on the long-term rating to Stable from Negative considers an improvement in the liquidity position of Accelerated Freeze Drying Company Limited (AFDC) and a significant growth expected in its revenues and cash accruals mainly from the new frozen seafood plant. The new plant is scheduled to commence operations shortly on the back of a healthy orderbook. The ratings continue to factor in AFDC's comfortable operational profile, characterised by its established presence and an extensive experience of the promoters in the seafood processing industry (especially in the value-added freeze-dried products segment). In addition, the company's continuous linkages with its largest customer, the Nissin Foods Group (holding around 48% share in AFDC), strengthen its operational profile and lead to repeat orders.

The ratings continue to be constrained by the susceptibility of AFDC's operating margins to raw material price fluctuations due to firm-price orders received from overseas customers on an annual basis and significant forex risks arising from an export-oriented nature of its business, though foreign currency loans provide partial natural hedge. The ratings also factor in AFDC's highly working capital-intensive nature of operations, owing to significant inventory and receivables, which exert pressure on its liquidity. Besides, the company remains vulnerable to adverse changes in the export incentives in India and foreign trade policies of importing nations. A significant decline in the receipts of export incentives (accounted for on-cash basis) in FY2021 led to a deterioration in the company's operating margin to 6.2% (provisional) from 9.5% in FY2020 and kept its RoCE low at 7.4% in FY2021 (provisional). Any significant reduction in incentive by the Government or adverse changes in the foreign trade policies of the importing nations may affect AFDC's business profile.

Key rating drivers and their description

Credit strengths

Diversification into frozen food segment along with a healthy order book likely to result in a significant growth in revenues and cash accruals – The company produces mainly freeze-dried products and is in the process of setting up a new plant for manufacturing frozen seafood items. As on March 31, 2021, it had orders of around Rs. 219 crore for freeze-dried segment and around Rs. 152 crore for the frozen seafood segment. Though there has been a significant delay in project implementation

for the new plant, the same is likely to commence commercial production from October 2021. The incremental sales from the frozen food products, on the back of a healthy orderbook, are likely to result in a robust growth in AFDC's revenues and cash accrual in the near to medium term.

Established position in the food processing industry and promoters' long experience in the business – The company has an established position as one of the major players in the freeze-dried seafood segment. AFDC's product portfolio primarily comprises high value-added products with healthy demand such as freeze-dried shrimps, fruits, spices and vegetables, which have a wide variety of usage in ready-to-eat products. The promoters' long experience of over three decades in the industry and AFDC's established relationships with overseas customers lend strength to its operational profile.

Strategic tie-up with a reputed overseas customer leads to repeat orders – AFDC is a joint venture between the Amalgam Foods Group, based in Kerala, and the Japan-based Nissin Foods Group, which is renowned in the ready-to-eat food industry and has presence in many other countries. Nissin Foods Group holds around 48% shares of AFDC and is the largest customer of the company. AFDC's strategic linkages with the reputed Nissin Foods Group ensure repeat orders.

Credit challenges

Susceptibility to fluctuation in raw material prices and forex rates, however, foreign currency loans provide some natural hedge – AFDC's main raw materials are sea-caught shrimp, which are available seasonally. Seasonal variation in supply and demand in the market leads to fluctuation in raw material prices, thereby affecting its margins, as the company enters firm-price contracts with its customers on an annual basis. Its profit margins also remain exposed to fluctuation in foreign exchange rates as it derives revenues mainly from exports (94% of sales in FY2021). Nevertheless, AFDC avails loans mainly in foreign currency, which provide some natural hedge against forex risks.

Significant client and geographical concentration risks – DAPL's top five customers contributed 81% to its total sales in FY2021. The share of its sales to the main customer, Nissin Foods Group, stood at 45% during the year, reflecting high client concentration risks. Besides, AFDC remains exposed to high geographical concentration risks as the major portion of its exports are made to Japan followed by the US.

Vulnerability to adverse changes in the export incentives and foreign trade policies of importing nations – AFDC is an export driven company and thus receives export incentives from the Government of India (GoI), which support its operating profitability. A significant decline in the receipts of export incentives (accounted for on cash basis) in FY2021 led to a deterioration in the company's operating margin to 6.2% (provisional) from 9.5% in FY2020 and kept its RoCE low at 7.4% in FY2021 (provisional). Currently, AFDC enjoys duty drawback of around 3% on the free-on-board (FOB) value of shrimp export. The GoI discontinued the incentives under the Merchandise Exports from India Scheme (MEIS) from January 2021 and introduced the Remission of Duties and Taxes on Export Products (RoDTEP) scheme. However, rates of RoDTEP are yet to be notified. Any significant reduction in incentive rates by the Government or adverse changes in the foreign trade policies of the importing nations may negatively impact AFDC's business profile.

High working capital intensive nature of operations – The company's net working capital relative to the operating income (NWC/OI) stood at a high level of 39% in FY2021 (36% in FY2020) due to sizeable stocking requirements and receivables, exerting pressure on its liquidity. Nevertheless, shorter cycle time for production of the new product lines (frozen items) is likely to result in a decline in the company's average inventory days and NWC/OI, going forward.

Liquidity position: Adequate

The company's liquidity profile is likely to remain adequate. Its cash flow from operations turned negative in FY2021 and is likely to remain negative in FY2022 due to incremental working capital requirements for the new plant for frozen seafood products. A significant capex of Rs. 10.6 crore in FY2021 adversely impacted the free cash flow (before debt repayment) in FY2021. However, the capex was mainly funded by long-term loans. In the current fiscal, the company is likely to incur a lower capex of Rs. 5-6 crore for completion of its ongoing project. The company's working capital limit was enhanced by around Rs.

10 crore in Q4 FY2021, which led to an improvement in its liquidity position, as reflected by an undrawn working capital limit of around Rs. 15 crore as on March 31, 2021. A fresh working capital limit of Rs. 14 crore has been sanctioned for the company's upcoming plant. This is likely to keep the liquidity adequate despite an expected increase in AFDC's working capital requirement in the current fiscal because of a sizeable turnover growth. The company's annual term loan repayment obligation is around Rs. 8.6-8.7 crore till FY2023 and around Rs. 4.1 crore in FY2024.

Rating sensitivities

Positive factors – ICRA may upgrade the ratings if the company's profitability improves on a sustained basis. Specific credit metrics that may lead to ratings upgrade include an interest coverage of more than 5 times and DSCR of more than 1.6 times on a sustained basis.

Negative factors – Pressure on the company's ratings may arise if there is a deterioration in the company's profitability and liquidity position. A decline in DSCR below 1.3 times on a sustained basis may also result in ratings downgrade.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not applicable
Consolidation/Standalone	The ratings are based on the standalone financial statements of the entity.

About the company

AFDC was incorporated in 1986 in Cochin, Kerala. The company is promoted by Amalgam Foods Limited, Cochin (52% shareholding) in collaboration with Nissin Foods, Hong Kong (27% shareholding) and Nissin Foods, Singapore (21% shareholding). It mainly processes and exports freeze-dried seafood, spices, vegetables and fruits. The company has two plants in Cochin and Bangalore for manufacturing freeze-dried products. The Cochin plant, with a capacity of 650 metric tonnes per annum (MTPA), mainly processes seafood and partly pepper, whereas the Bangalore plant processes herbs, spices, vegetables and fruits with a capacity of 390 MTPA. AFDC is setting up a frozen seafood facility in Cochin, with a capacity of 4,350 MTPA, which is likely to commence commercial production in October 2021.

Key financial indicators

AFDC Standalone	FY2020 (audited)	FY2021 (provisional)
Operating Income (Rs. crore)	190.6	201.0
PAT (Rs. crore)	4.0	4.9
OPBDIT/OI (%)	9.5%	6.2%
PAT/OI (%)	2.1%	2.4%
Total Outside Liabilities/Tangible Net Worth (times)	1.2	1.4
Total Debt/OPBDIT (times)	4.7	7.8
Interest Coverage (times)	3.7	3.1

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Note: Amount in Rs. crore; All calculations are as per ICRA research

Total assets and net worth exclude revaluation reserves

Source: AFDC, ICRA research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years				
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Mar 31, 2021	Date & Rating in	Date & Rating in FY2021			Date & Rating in FY2020	Date & Rating in FY2019
						Aug 26, 2021	Aug 21, 2020	May 08, 2020		
1	Term Loans	Long term	\$1.62 million	\$1.62 million	[ICRA]BBB-(Stable)	[ICRA]BBB-(Negative)	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)	-	
2	Fund-based working capital limits	Short term	Rs. 41.50 crore + \$4.50 million	-	[ICRA]A3	[ICRA]A3	[ICRA]A3	[ICRA]A3	-	
3	Non-fund based limits	Short term	Rs. 1.90 crore	-	[ICRA]A3	[ICRA]A3	[ICRA]A3	[ICRA]A3	-	
4	Unallocated limit	Long term	\$0.63 million	-	[ICRA]BBB-(Stable)	-	-	-	-	

Complexity level of the rated instruments

Instrument	Complexity Indicator
Term loans	Simple
Fund-based working capital (packing credit/bill discounting/bill purchase/bill negotiation/standby limits)	Simple
Non-fund based limits (letter of credit and bank guarantee)	Very simple
Unallocated limit	Not applicable

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analyzing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, is available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN No.	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated	Current Rating and Outlook
NA	Term Loan-1	Feb 2016	NA	Jul 2022	\$0.82 million	[ICRA]BBB- (Stable)
NA	Term Loan-2	May 2019	NA	Sep 2024	\$0.80 million	[ICRA]BBB- (Stable)
NA	Export Packing Credit/Packing Credit Foreign Currency	NA	NA	NA	Rs. 17.50 crore + \$4.50 million	[ICRA]A3
NA	Standby limit	NA	NA	NA	Rs. 4.0 crore	[ICRA]A3
NA	Export Bill Purchase/ Discounting	NA	NA	NA	Rs. 10.0 crore	[ICRA]A3
NA	Export Bill Negotiation	NA	NA	NA	Rs. 10.0 crore	[ICRA]A3
NA	Letter of Credit	NA	NA	NA	Rs. 1.50 crore	[ICRA]A3
NA	Bank Guarantee	NA	NA	NA	Rs. 0.40 crore	[ICRA]A3
NA	Unallocated limit	NA	NA	NA	\$0.63 million	[ICRA]BBB- (Stable)

Source: Company

Annexure-2: List of entities considered for consolidated analysis: Not applicable

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