September 30, 2022 (Revised)

Anmol Industries Limited: Ratings reaffirmed

Summary of rating action

Instrument^	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based - Cash Credit	25.00	20.00	[ICRA]AA- (Stable); Reaffirmed
Short-term – Fund Based Working Capital	30.00	10.00	[ICRA]A1+; Reaffirmed
Short-term – Non-Fund Based Facilities (interchangeable)	(13.00)	(10.00)	[ICRA]A1+; Reaffirmed
Long-term/ Short-term – Fund Based Working Capital	39.00	39.00	[ICRA]AA- (Stable)/ [ICRA]A1+; Reaffirmed
Long-term/ Short-term – Non-Fund Based Facilities (interchangeable)	(40.00)	(30.00)	[ICRA]AA- (Stable)/ [ICRA]A1+; Reaffirmed
Long-term/ Short-term – Unallocated Limit	6.00	31.00	[ICRA]AA- (Stable)/ [ICRA]A1+; Reaffirmed
Total	**100.00**	**100.00**	

^Instrument details are provided in Annexure-1

Rationale

The ratings reaffirmation continues to consider the extensive experience of the promoters of Anmol Industries Limited (AIL) and its established track record in the biscuit manufacturing business of more than two decades. The ratings also consider the favourable demand outlook of the biscuit industry. Moreover, ICRA notes the company's strong market presence, particularly in eastern India, the established brand name of 'Anmol' and a wide network of over 2,700 super-stockists, distributors and sub-distributors, which strengthen its operating profile. The ratings also consider the favourable financial risk profile of the company, characterised by a conservative capital structure and strong coverage indicators due to low borrowings. The company has embarked upon a capex programme, estimated at around Rs. 180 crore, to set up a new plant in Bihar, to be funded through a term loan of Rs. 80 crore and the balance through internal accruals. However, ICRA does not foresee any material deterioration of the company's capital structure and debt coverage metrics. The company made share buyback of around Rs. 64 crore, including tax, in FY2022 and plans to continue with the share buyback programme, going forward (~Rs. 65 crore, including tax, planned for FY2023). However, AIL's liquidity is likely to remain adequate despite the cash outflows towards capex and share buyback, given its sizeable free cash and liquid investments and healthy cash accruals expected going forward. ICRA also notes the company's low working capital intensity of operations, which supports its liquidity position.

The ratings, however, are constrained by the susceptibility of AIL's profitability to fluctuations in raw material prices and the intense competition inherent in the industry due to the presence of a large number of organised and unorganised players, which limits pricing flexibility and impacts margins. The company's operating margin deteriorated significantly in FY2022 on the back of a sharp rise in input prices and its inability to pass on the price hike to the consumers fully during the year. However, its profitability is likely to improve in the current fiscal, with a decline in raw material cost mainly due to a significant softening of palm oil prices in the recent past. AIL also remains exposed to high geographical concentration risk as the major portion of its revenues is derived from eastern India.

The Stable outlook on the [ICRA]AA- rating reflects ICRA's opinion that AIL will continue to benefit from its strong market presence and established brand, particularly in eastern India and the company's credit profile is likely to remain healthy with a conservative capital structure, strong debt coverage metrics and healthy cash accruals.

Key rating drivers and their description

Credit strengths

Established brand name in eastern and northern India – AIL primarily sells its products under the brand name, Anmol, through more than 2,700 super-stockists, distributors and sub-distributors across eastern and northern India, which strengthen its operating profile. Over the years, Anmol has become an established brand in the biscuit and bakery segment and enjoys good brand recognition and customer acceptance particularly in rural and sub-urban markets of eastern India.

Favourable financial profile characterised by a conservative capital structure and strong coverage indicators – AIL's capital structure remained conservative with low debt and healthy tangible net worth. The company's total debt as on March 31, 2022 comprised lease liabilities of Rs. 11.4 crore only, and its TOL/TNW stood at a low level of 0.2 times over the last two fiscals. The conservative capital structure and healthy profits, despite a moderation in FY2022, led to strong debt coverage metrics, as reflected by an interest coverage of 76.6 times (187.8 times in FY2021), total debt relative to OPBDITA of 0.1 times (0.2 times in FY2021) and net cash accrual relative to the total debt of 375% (431% in FY2021) in FY2022. Despite the term loan of Rs. 80 crore contracted to set up the facility in Bihar, ICRA expects the gearing and debt coverage metrics to remain strong.

Low working capital intensity of operations supports liquidity – Most of the company's sales are made against immediate/ advance payments. It maintains a moderate level of raw material and finished goods inventory to ensure smooth operation and distribution. This coupled with moderate credit availed from suppliers and advances from customers keeps AIL's net working capital relative to the operating income at a low level (1-4% over the last three years), supporting the liquidity position.

Favourable demand outlook of biscuit industry – With increasing urbanisation and changing lifestyle, the demand outlook for biscuits in the country is likely to remain favourable, given the low per-capita consumption at present. This is likely to support revenue growth for biscuit players like AIL that have an established brand presence.

Credit challenges

Profitability remains susceptible to volatility in raw material prices – The raw materials required for manufacturing biscuits and bakery products are flour, sugar, palm oil, butter, skim milk powder (SMP), flavors, preservatives etc. The company also requires a significant amount of packaging materials. The prices of flour, sugar and palm oil are highly dependent on both agro-climatic conditions and Government policies and are subject to considerable volatility, thus impacting AIL's margins. Prices of packaging materials like laminates remain linked to crude oil prices, which also exhibit significant volatility. A sharp rise in input costs, which the company couldn't fully pass on to the consumers, along with other factors like lower subsidy receipt and resumption of selling expenses like discounts, rebates etc., which had been discontinued during the first wave of the pandemic in FY2021, contributed to a significantly lower operating margin in FY2022 (6.1%) than FY2021 (14.2%). The company's profitability in Q1 FY2023 was also adversely impacted by elevated input prices. However, a significant softening of palm oil prices in the recent past led to an improvement in AIL's profits post Q1 FY2023 and is likely to support the company's profitability in the full year of FY2023.

Limited geographical diversification – At present, AIL has market presence in more than 25 Indian states, and also sells its products overseas like Middle-East nations, North America, etc. However, the company's major market remains the eastern states of India, which together accounted for around 62-69% of its revenues over the past four years, implying AIL's exposure to geographical concentration risks.

Competitive nature of industry exerts pressure on margins – The company remains exposed to stiff price-based competition from other established players and various small biscuit manufacturers, given a significant portion of its revenue is generated from the highly price-sensitive sub-brands. Hence, AIL's limited pricing flexibility is likely to keep its margins under check.

Liquidity position: Adequate

The company's cash flow from operations declined to Rs. 105 crore in FY2022 from Rs. 156 crore in FY2021, however, the same remained healthy. AIL paid a sizeable donation of Rs. 50 crore each in FY2021 and FY2022 to a charitable trust within the Group. Besides, there was a cash outlay of around Rs. 64 crore (including tax) for share buyback in FY2022. Nevertheless, the donation payment and share buyback have been funded with AIL's sizeable free cash and liquid investments, which stood at around Rs. 142 crore and Rs. 99 crore as on March 31, 2021 and March 31, 2022, respectively. The company's working capital utilisation remained low, and the company does not have any long-term debt repayment obligation except lease liabilities in the current fiscal. AIL is setting up a new plant in Bihar (to be commissioned in H1 FY2024), which will entail a capex of around Rs. 180 crore, to be funded through term loan of Rs. 80 crore and the balance by internal accruals. Around Rs. 70-80 crore of the capex is likely to be incurred in the current fiscal. The company's debt repayment obligation would increase gradually because of a ballooning repayment structure of the term loan sanctioned for the capex. AIL has proposed a share buyback of around Rs. 65 crore (including tax) in FY2023, and is likely to continue with its share buyback programme going forward as well. The company's residual free cash and liquid investments after share buyback and healthy cash flow from operations are likely to keep its liquidity adequate despite the sizeable capex.

Rating sensitivities

Positive factors – ICRA may upgrade AIL's long-term rating if the company is able to geographically diversify its operations and demonstrate a significant improvement in its scale of operations and cash accruals on a sustained basis.

Negative factors – AIL's inability to improve its profit margins on a sustained basis may trigger a rating downgrade. Pressure on AIL's ratings may also arise if sizeable unanticipated debt-funded capital expenditure, share buyback/dividend pay-out or loans and advances extended to Group entities adversely impact the company's liquidity position.

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 rated entity.

About the company

Anmol Industries Limited (formerly known as Anmol Industries Private Limited) was incorporated by the Kolkata-based Choudhary family in 2009. Anmol Biscuits Limited (ABL), which was an erstwhile holding company of AIL, started operations in 1994. With effect from April 1, 2016, ABL merged with AIL. Anmol Bakers Private Limited (ABPL), which was a wholly-owned subsidiary of ABL, also merged with AIL with effect from April 2, 2016. Both ABL and ABPL were in the business of biscuits and bakery products. Subsequently, the name of Anmol Industries Private Limited was changed to Anmol Industries Limited with effect from March 2017.

The company manufactures biscuits, cakes, cookies and rusk under the Anmol brand that are mainly sold in eastern and northern India. AIL has seven manufacturing facilities located in northern and eastern states of India, with a combined production capacity of 3,22,660 metric tonnes per annum (MTPA). The company is setting up a new plant in Bihar with a manufacturing capacity of around 64,000 MTPA.

Key financial indicators (audited)

AIL (Standalone)	FY2021	FY2022
Operating income	1,379.3	1,416.4
PAT	85.7	6.8
OPBDIT/OI	14.2%	6.1%
PAT/OI	6.2%	0.5%
Total outside liabilities/Tangible net worth (times)	0.2	0.2
Total debt/OPBDIT (times)	0.2	0.1
Interest coverage (times)	187.8	76.6

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore

Status of non-cooperation with previous CRA:

Name of CRA	Date of Press Release	Rating Action
CRISIL	June 22, 2022	Long-term rating – CRISIL B/Stable ISSUER NOT COOPERATING; Revised from CRISIL BB+/Stable ISSUER NOT COOPERATING* Short-term rating – CRISIL A4 ISSUER NOT COOPERATING; Revised from CRISIL A4+ ISSUER NOT COOPERATING*

**Issuer did not cooperate; based on best available information*

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2023)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as of Mar 31, 2022 (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020
					Sep 30, 2022	Jun 15, 2021		
1	Cash Credit	Long term	20.00	NA	**[ICRA]AA- (Stable)**	**[ICRA]AA- (Stable)**	-	-
2	Fund based working capital^	Short term	10.00	NA	**[ICRA]A1+**	**[ICRA]A1+**	-	-
3	Letter of Credit / Import Documentary Credit (Interchangeable)	Short term	(10.00)	NA	**[ICRA]A1+**	**[ICRA]A1+**	-	-
4.	Fund based working capital*	Long term/ short term	39.00	NA	**[ICRA]AA- (Stable) / [ICRA]A1+**	**[ICRA]AA- (Stable) / [ICRA]A1+**	-	-
5.	Bank Guarantee/ Letter of Credit (Interchangeable)	Long term/ short term	(30.00)	NA	**[ICRA]AA- (Stable) / [ICRA]A1+**	**[ICRA]AA- (Stable) / [ICRA]A1+**	-	-
6.	Unallocated limit	Long term/ short term	31.00	NA	**[ICRA]AA- (Stable) / [ICRA]A1+**	**[ICRA]AA- (Stable) / [ICRA]A1+**	-	-

*^Includes short-term working capital loan, overdraft, EPC/PCFC *Combined limits including long-term/short term facilities like Cash Credit, WCDL, overdraft, STL, EPC/PCFC, FBD, Purchase Invoice Finance, Bill Discounting*

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term – Fund-based - Cash Credit	Simple
Short-term – Fund Based Working Capital	Simple
Short-term – Non-Fund Based Facilities (interchangeable)	Very simple
Long-term/ Short-term – Fund Based Working Capital	Simple
Long-term/ Short-term – Non-Fund Based Facilities (interchangeable)	Very simple
Long-term/ Short-term – 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 analysing 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 are available on ICRA's website: www.icra.in

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
-	Cash Credit	NA	NA	NA	20.00	[ICRA]AA- (Stable)
-	Fund based working capital^	NA	NA	NA	10.00	[ICRA]A1+
-	Letter of Credit / Import Documentary Credit (Interchangeable)	NA	NA	NA	(10.00)	[ICRA]A1+
-	Fund based working capital*	NA	NA	NA	39.00	[ICRA]AA- (Stable) / [ICRA]A1+
-	Bank Guarantee/ Letter of Credit (Interchangeable)	NA	NA	NA	(30.00)	[ICRA]AA- (Stable) / [ICRA]A1+
-	Unallocated limit	NA	NA	NA	31.00	[ICRA]AA- (Stable) / [ICRA]A1+

*^Includes short-term working capital loan, overdraft, EPC/PCFC *Combined limits including long-term/short term facilities like Cash Credit, WCDL, overdraft, STL, EPC/PCFC, FBD, Purchase Invoice Finance, Bill Discounting*

Source: Company

Annexure II: List of entities considered for consolidated analysis: Not applicable

Corrigendum:

Document dated September 30, 2022 has been corrected with revisions as detailed below:

- Revision made in the section ‘Status of non-cooperation with previous CRA’ on page number 4
- Non-cooperation with previous CRA included instead of ‘Not applicable’ mentioned earlier

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About ICRA Limited:

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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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