

January 12, 2023

## Edward Food Research and Analysis Centre Limited: Rating reaffirmed

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term – Non-convertible debenture	36.00	36.00	[ICRA]B- (Stable); reaffirmed
<b>Total</b>	<b>36.00</b>	<b>36.00</b>	

\*Instrument details are provided in Annexure-1

### Rationale

The reaffirmation of Edward Food Research and Analysis Centre Limited's (EFRAC) rating factors in the weak financial risk profile of the company, characterised by an adverse capital structure, depressed coverage indicators, negative net worth position and poor liquidity position. The rating is also impacted by the high debt servicing obligations of the company compared to the cash accruals generated from the business. The company's scale of operations remains modest, notwithstanding the growth witnessed in FY2022 and H1 FY2023.

The rating, however, favourably factors in the established track record of the Keventer Group, which supports EFRAC's business position to an extent. The rating also derives comfort from the reputed client base of EFRAC and the receipt of accreditations/certifications from major approving agencies in the food, drugs, and environment division, which support its business profile. The rating also takes into consideration the significant growth in its operating income (OI) in FY2022, albeit on a low base. The OI growth is likely to continue in FY2023 as well, though with some moderation, given the top line achieved in H1 FY2023. The revenue growth has also translated into an improvement in the profitability metrics owing to the fixed cost nature of this business and EFRAC is expected to post cash profit in FY2023 for the first time since FY2015.

The Stable outlook on the [ICRA]B- rating reflects ICRA's opinion that EFRAC is expected to maintain its revenue growth while improving its profitability and return metrics.

### Key rating drivers and their description

#### Credit strengths

**Established track record of Keventer Group** – EFRAC is a part of the Keventer Group, which comprises various entities involved in diversified businesses like real estate, fast moving consumer goods (FMCG), food products and agro-related businesses. The Group has supported EFRAC in its operations and has also extended financial assistance in the form of equity infusion/unsecured loans, as and when required.

**Accreditation in place from major approving agencies; reputed clientele** – EFRAC's testing and research laboratory for food and food products, drugs and cosmetics, and environment are accredited by major approving agencies such as USFDA, FSSAI, NABL, BIS and MOEF etc. which act as a natural entry barrier to potential new entrants in the industry. ICRA notes that EFRAC's customer base includes prominent players such as Hindustan Coca Cola Beverages Private Limited, Nestle India Limited, Cipla Limited, Sun Pharmaceutical Industries Limited, Food Safety and Standards Authority of India Limited etc., reflecting the credibility of its analysis, which supports its business profile.

#### Credit challenges

**Weak financial profile characterised by an adverse capital structure and depressed coverage indicators** – EFRAC's net worth gradually eroded due to losses suffered by the company over the years and stood negative at Rs. 15.9 crore as on September

30, 2022 (unaudited). As a result, its capital structure remained adverse with a negative gearing of 3.1 times as on September 30, 2022 (negative 3.2 times as on March 31, 2022). Nonetheless, ICRA notes that the net loss narrowed to Rs. 3.9 crore in FY2022 (Rs. 8 crore in FY2021) and further to Rs. 0.24 crore in H1 FY2023 (Rs. 2.3 crore in H1 FY2022), showing signs of improvement. The coverage indicators remained depressed, as reflected by an interest coverage of 1.3 times and TD/OPBDITA of 4.2 times in H1 FY2023, despite the improvement witnessed in the recent quarters.

**Sizeable debt servicing obligations; high coupon rates on NCDs** – EFRAC's NCDs carry a high coupon rate of 18%, leading to a sizeable interest outgo on a yearly basis. The redemption of the NCDs worth Rs. 48.26 crore (including accrued interest; held by Mandala Food Co-Investment I Ltd which is a part of the Mandala group) is due in September 2023 although the same is expected to be deferred. ICRA notes that the cash accruals generated from the business would be insufficient to repay the maturity proceeds and the company would remain dependent on refinancing and/or investor support to redeem the same.

**Relatively smaller scale of operations** – EFRAC's revenue surged 45% to Rs. 24.6 crore in FY2022, primarily driven by a ~71% growth in revenues from the food products division. The drugs and environment divisions also witnessed a growth of ~23% and ~41%, respectively, during the same period. The company's growth trajectory, with some moderation, is expected to continue in the current fiscal as it has already registered sales worth Rs. 14.7 crore in H1 FY2023, which is a ~24% increase on a YoY basis. Despite that, the scale of operations would continue to remain small.

### Liquidity position: Poor

The liquidity of the company is poor. EFRAC's fund flow from operations despite the significant improvement witnessed, stood negative at Rs. 0.6 crore in FY2022 (negative Rs. 5.1 crore in FY2021) due to low absolute profit and high interest outgo. The company is likely to spend around Rs. 4 crore on replacement of machines in FY2023, which would be funded through internal accruals. High interest outgo relative to the absolute profitability and regular capex are expected to keep the liquidity of the company poor in the near-to-medium term.

### Rating sensitivities

**Positive factors** – ICRA may upgrade EFRAC's rating if the company's net worth and liquidity position improve significantly on a sustained basis.

**Negative factors** – Pressure on EFRAC's rating may arise if it is unable to make financial arrangements in advance to honour the upcoming NCD redemption.

### Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	<a href="#">Corporate Credit Rating Methodology</a>
Parent/Group support	Not applicable
Consolidation/Standalone	The rating is based on the standalone financials of EFRAC.

### About the company

Edward Food Research and Analysis Centre Limited (EFRAC), a part of the Keventer Group, was established in August 1921 by Mr. Edward Keventer as Edward Keventer Private Limited. In 1986, the company was acquired by Mr. M. K. Jalan, Promoter and Chairman of the Keventer Group. Subsequently, the company's name was changed to Edward Keventer Life Science Limited before being further changed to Edward Food Research and Analysis Centre Limited. Mandala Food Co-Investments II

Ltd. and Mandala Litmus SPV, based out of Mauritius, made an equity investment in FY2017, post which, the Mandala Group holds an equity stake of 51% in EFRAC while the Keventer Group holds 49%. The chairman of the board is from the Mandala group. The company operates a testing and research laboratory for food and food products, drugs and cosmetics, and environment at Subhash Nagar in North 24 Parganas district, West Bengal.

#### Key financial indicators

	Audited		Unaudited	
	FY2021	FY2022	H1 FY2022	H1FY2023
Operating income (Rs. crore)	17.0	24.6	11.9	14.7
PAT (Rs. crore)	-8.0	-3.9	-2.3	-0.2
OPBDIT/OI	22.3%	33.6%	32.4%	40.3%
PAT/OI	-47.0%	-16.0%	-19.4%	-1.7%
Total outside liabilities/Tangible net worth (times)	-4.7	-3.5	-3.9	-3.5
Total debt/OPBDIT (times)	13.1	6.0	6.4	4.2
Interest coverage (times)	0.4	0.9	0.9	1.3

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

**Status of non-cooperation with previous CRA: Not applicable**

**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	
					Jan 12, 2023	Mar 21, 2022	Apr 07, 2021	Apr 06, 2020	Jan 13, 2020
1	Non-Convertible Debenture	Long Term	36.00	35.18	[ICRA]B- (Stable)	[ICRA]B- (Stable)	[ICRA]C+	[ICRA]C+	[ICRA]C+
									[ICRA]B+ (Stable)

### Complexity level of the rated instruments

Instrument	Complexity Indicator
Non-Convertible Debenture	Simple

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: [Click Here](#)

#### Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
INE008V07026	Non-Convertible Debenture	June 2016	18.00%	September 2023	36.00	[ICRA]B- (Stable)

*Source: Company*

#### Annexure II: List of entities considered for consolidated analysis: Not Applicable

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