February 09, 2023

Bikanervala Foods Private Limited: Ratings downgraded; outlook revised to Stable

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based - Working Capital Facilities	55.00	55.00	[ICRA]A (Stable); downgraded from [ICRA]A+(Negative); outlook revised to Stable from Negative
Fund-based -Term Loans	40.34	40.34	[ICRA]A (Stable); downgraded from [ICRA]A+(Negative); outlook revised to Stable from Negative
Non-Fund based limits	8.03	8.03	[ICRA]A2+; downgraded from [ICRA]A1
Total	**103.37**	**103.37**	

**Instrument details are provided in Annexure-I*

Rationale

The ratings downgrade of Bikanervala Foods Private Limited (BFPL) factors in the continuous moderation in its capitalisation and coverage metrics, owing to a sizeable debt-funded capex it has been undertaking. The increased leverage from the said capex, along with pressure on operating margins due to hike in raw material costs, have moderated BFPL's debt coverage indicators, which is expected to sustain in the near to medium term. The company also remains exposed to associated project execution and market risks, heightened by its recent entry into a new market (South India). The ratings also remain constrained by BFPL's exposure to stiff competition from branded packaged food players, which include both large multi-nationals and medium-sized domestic players, as well as local sweets and savouries (*namkeen*) manufacturers and counterfeits. Although a strong brand hedges against raw material price movements, the company has witnessed fluctuations to some extent in OPBDITA margins over the years. Moreover, quality also remains a risk for the company as it operates in the food industry. Nevertheless, BFPL's ability to complete the project within scheduled costs and timelines and achieve a healthy ramp- up after its completion, will be a crucial determinant of the company's return metrics and financial risk profile.

However, the ratings continue to draw comfort from the company's strong operational profile with a well-entrenched distribution network across northern India, strong market position in the packaged food industry, moderately diversified revenue streams and established presence and brand equity of the Bikanervala and Bikano brands. The ratings also continue to factor in the inherently low working capital intensity of the business which has supported the company's adequate liquidity position with sufficient cushion in fund-based limits. Further, the ratings also factor in the expected incentives for its ongoing capex, given that the company's capex is approved under the Government's Production Linked Incentive (PLI) Scheme, which will further enhance the liquidity when received.

The Stable outlook on the long-term rating reflects ICRA's expectations that BFPL will continue to benefit from the strong brand names of Bikanervala and Bikano and maintain healthy growth in revenues in the packaged snacks business in the medium term.

Key rating drivers and their description

Credit strengths

Strong brand recognition – BFPL has two key segments, namely packaged foods/ snacks (sales of savouries and sweets) and restaurants. While the company sells *namkeens* and sweets and operates a chain of cafes under the brand name, Bikano, it operates a chain of quick service restaurants (QSRs) under the brand name, Bikanervala. Bikano as well as Bikanervala are wellrecognised brands in their respective segments and enjoy good customer acceptance in northern India. However, the company faces competition from other established brands like Haldiram's, Bikaji, Lays, Kurkure, etc, in the snacks segment, and from peers like Haldiram's, McDonalds, Domino's, KFC, etc, in the QSR business, besides the local players/unorganised segment.

Favourable demand outlook for packaged snack foods industry in India – The demand for packaged snacks is driven by factors such as a large population base, increasing spending ability and shift towards branded product consumption. Further, increased preference for hygienic products post the pandemic has resulted in a robust increase in demand for packaged snacks over the past two years.

Extensive distribution network – BFPL sells its products through a network of super-stockists, distributors and retailers across northern India. In addition, the company and its franchisees operate Bikanervala outlets in northern India. Together with its brand strength, the established distribution network of the Group makes it relatively easier for BFPL to introduce new products.

Diverse revenue streams – BFPL derives ~80% of its revenues from the sale of packaged foods, and the rest from restaurants, royalty income from franchisee outlets and job-work income for contract manufacturing. Though the contribution from segments other than snack products remains low in the company's total turnover, these revenue streams provide some revenue diversification vis-à-vis some of its peers, who are only involved in manufacturing and distribution.

Low working capital intensity of operations– The working capital intensity of the business remains inherently low, as the company offers limited credit period and carries limited inventory due to the perishable nature of the food products.

Credit challenges

Sizeable capex along with margins pressure to increase reliance on debt and result in moderation in capitalisation and coverage metrics – BFPL is undertaking a sizeable capex, spread over the current and next fiscals, entailing an estimated outlay of Rs. 360 crore under the PLI scheme (Category-I, Segment: Ready to Cook/Ready to Eat). The said capex is being funded in a debt-to-equity ratio of 3:1, comprising debt of Rs. 270 crore, and equity funding through internal accruals of Rs. 90 crore. This is estimated to result in a significant increase in the company's outstanding debt, an increase in repayment obligations and a moderation in capitalisation and coverage metrics over the next two fiscals, till the operations from the new unit ramp-up. This apart, the company's operating margins were also adversely impacted over the last six quarters due to inflationary pressure resulting in increased costs. Nevertheless, despite moderation, the company's capitalisation and coverage metrics are expected to remain comfortable in the medium term.

Ramp-up of South India operations remains critical, given the associated execution and market risks in the region – With the company's manufacturing facility in Hyderabad getting commissioned in the current fiscal, BFPL has forayed into the southern markets. This exposes the company to associated execution and market risks, given that it is a new market for BFPL in terms of taste preferences, product acceptability, pricing and distribution reach. Its ability to establish itself in these markets remains to be seen.

Competition from local manufacturers and established players – Despite having a well-established brand, BFPL is not insulated from competition from local manufacturers of sweets and snacks, along with established participants like PepsiCo. India, ITC Limited, Haldiram Snacks Private Limited, Balaji Wafers Private Limited, Prataap Snacks Private Limited, etc.

Quality risks – Being in the food industry, risks regarding quality and reputation remain high.

Liquidity position: Adequate

BFPL's liquidity profile is adequate, with its retained cash flows expected to be adequate to fund its scheduled repayment obligations as well as margin money for the planned capex in the medium term. The company also has a comfortable cushion in its fund-based working capital limits (averaging at ~Rs. 30 crore for the six-month period ended October 2022), with utilisation averaging at ~45% (on lower of drawing power and sanctioned fund based limits) in H1 FY2023. It is also noted that the company has already tied up for its debt funding requirements for the ongoing capex programme, which is expected to support its liquidity.

Rating sensitivities

Positive factors – Ratings could be upgraded, if the company demonstrates favourable progress on the projects, together with healthy growth in sales and improved profitability, translating into improved capitalisation and coverage metrics. A specific metric for an upgrade is if consolidated Debt/OPBITDA is below 2 times (adjusted for Ind AS 116 impact), on a sustained basis.

Negative factors – The ratings could be downgraded, if the company experiences significant cost/time overruns in the project, or a decline in OI or profit margins result in a material weakening in capitalisation and coverage metrics. A specific metric for a downgrade is if interest cover is below 5 times (adjusted for Ind AS 116 impact), on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Approach: Consolidation
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of BFPL and Bikano Foods Private Limited (Bikano Foods). As on March 31, 2022, BFPL had five subsidiaries. However, in the absence of IGAAP consolidated financials for all the entities, ICRA has reviewed only the consolidated estimated financials for BFPL and Bikano Foods. This does not make the analysis deficient, as it is the consolidated businesses and balance sheet for BFPL and Bikano Foods that principally drive the Group's credit risk. Bikano Foods is the only major operational subsidiary of BFPL, with limited/no operations in the other subsidiaries. Further, BFPL has extended a corporate guarantee for the debt availed by Bikano Foods.

About the company

Incorporated in 1988 by Mr. Shyam Sunder Aggarwal, BFPL is a closely held company that manufactures snacks like *namkeens*, sweets, biscuits, etc., under the Bikano brand, through its manufacturing facilities in Delhi, Greater Noida (Uttar Pradesh) and Rai (Haryana). The company is also setting up new manufacturing facilities in Hyderabad (for the South Indian markets) and Greater Noida. The Bikano brand is also used for operating owned and franchisee café outlets by the company. In addition, the company owns and operates restaurants as well as franchisee outlets under the Bikanervala brand.

The company had acquired a 48% stake in Bikano Foods Private Limited in FY2019 and increased it to 100% in FY2020. Bikano Foods owns a snack manufacturing facility in Rai. Further, BFPL had announced the merger of Bikano Foods Private Limited with itself, as on date, the merger is in the concluding stage, as the said entities have already obtained the required approvals and are awaiting final order from the NCLT approving the aforesaid Scheme of Amalgamation.

Key financial indicators

Consolidated	FY2021	FY2022	FY2021**	FY2022**
	Adjusted*	Adjusted*	Reported	Reported
Operating income	982	1,182	989	1,194
PAT	39	30	35	28
OPBDIT/OI	10.0%	7.2%	10.6%	8.2%
PAT/OI	4.0%	2.5%	3.5%	2.4%
Total outside liabilities/Tangible net worth (times)	0.7	0.9	1.0	1.2
Total debt/OPBDIT (times)	1.2	1.8	2.0	2.6
Interest coverage (times)	10.7	10.8	6.4	6.3

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

** consolidated estimates of BFPL and Bikano Foods Private Limited (Bikano Foods) as per IGAAP shared by the company*

** *Audited and as per Ind AS*

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 (Rs. crore)*	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020
					Feb 09, 2023	31-Dec-2021	15-Sep-2020	-
1	**Fund- based - Working Capital Facilities**	Long Term	55.00	37.00	[ICRA]A (Stable)	[ICRA]A+ (Negative)	[ICRA]A+ (Stable)	-
2	**Fund based Term Loans**	Long Term	40.34	25.86**	[ICRA]A (Stable)	[ICRA]A+ (Negative)	[ICRA]A+ (Stable)	-
3	**Non-Fund based limits**	Short Term	8.03	-	[ICRA]A2+	[ICRA]A1	[ICRA]A1	-

**Amount outstanding as on March 31, 2022. **Amount outstanding for the term loans being rated by ICRA*

Complexity level of the rated instruments

Instrument	Complexity Indicator
Fund- based - Working Capital Facilities	Simple
Fund based Term Loans	Simple
Non-Fund based limits	Very 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
NA	Fund-based - Working Capital Facilities	NA	NA	NA	55.00	[ICRA]A (Stable)
NA	Term Loans	FY2017-FY2019	NA	FY2024-FY2025	40.34	[ICRA]A (Stable)
NA	Non-fund based limits	NA	NA	NA	8.03	[ICRA]A2+

Source: *Company*

Annexure II: List of entities considered for consolidated analysis –

Company Name	Ownership	Consolidation Approach
Bikano Foods Private Limited	100%	Full Consolidation

Source: *Company*

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About ICRA Limited:

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