November 27, 2023

Unibic Foods India Private 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	53.00	60.00	[ICRA]BBB+(Stable); reaffirmed
Long-term Fund-based – Term loan	5.62		-
Short Term – Non-Fund based - Bank guarantee	0.50		-
Long Term/Short Term – Unallocated	0.91	0.03	[ICRA]BBB+(Stable)/[ICRA]A2; reaffirmed
Total	**60.03**	**60.03**	

**Instrument details are provided in Annexure-I*

Rationale

ICRA has taken a consolidated view of Unibic Foods India Private Limited (Unibic) and its subsidiary, RPA Unibakes Private Limited, while reaffirming the credit rating, given the common management and significant operational and financial linkages between them.

The ratings reaffirmation factors in ICRA's expectations that the performance of Unibic is likely to improve over the medium term on account of wide geographical diversification and favourable demand outlook for its product portfolio. The entity reported a 29% revenue growth in FY2023 at Rs. 768 crore and is expected to report a healthy growth in the current year as well as it has already reported revenues of Rs. 469 crore in 7M FY2024. The ratings also factor in the steady improvement in the business and financial risk profiles of the company, supported by healthy and profitable ramp-up of operations and increased focus on premium products. The company reported a steady performance in FY2023, with cash accruals of ~ Rs. 20 crore and an operating margin of 3.8%. The ratings also continue to draw strength from the company's well-recognised brand, its strong distribution network, and its established relationships with reputed institutional clients. The ratings also continue to factor in the extensive experience of Unibic's promoters and favourable growth prospects for the industry. In FY2023, Unibic has acquired a 100% stake in RPA Unibakes Private Limited, a manufacturing facility in Hyderabad with a capacity of 36,000 MTPA. This facility manufactures cookies solely for Unibic. The company has incurred a capex of Rs. 100 crore, of which Rs. 65 crore was funded via term loan and the balance via internal accruals. This unit is expected to aid the company in improving its revenues as well as the operating margins, resulting in improved financial profile, going forward.

The ratings, however, are constrained by a significant increase in the debt position of the company at the consolidated level owing to debt availed for the subsidiary. This has resulted in elevated leverage indicators with Debt/OPBDITA of 4.6 times and TOL/TNW of 2.3 times as on March 31, 2023.The debt coverage indicators are also expected to moderate from the current level owing to debt repayment burden although the same are still expected to remain at comfortable levels. Moreover, the company's profitability remains exposed to stiff competition from branded as well as local/ regional players, vulnerability of the company's profitability to adverse movements in raw material prices, and high quality/ reputational risks, given the company's presence in the food industry. This was visible in the low operating margin of 3-4% in FY2022 and FY2023. The company expects an improvement in its operating margins in the current fiscal owing to lower raw material prices and savings in logistics costs.

The Stable outlook reflects ICRA's expectation that Unibic is likely to witness a healthy growth in its revenues in the coming years, backed by its strong brand name and distribution network. The profitability of the company is also likely to improve as the newly installed capacity at its subsidiary is expected to be fully utilised in the coming quarters.

Key rating drivers and their description

Credit strengths

Healthy operational profile, characterised by well recognised brands, diversified business presence and established relationships with renowned clients – The Unibic brand is well recognised in the biscuits industry and the company enjoys a strong presence and customer acceptance across India. Further, the company has a strong distribution reach through its network of distributors and retail outlets across the country. It has diversified channels of distribution including modern trade, canteen stores, institutional sales and private labels besides the traditional distribution channel. In addition, it manufactures biscuits under private label for Indigo Airlines, Feasters etc. Established relationship with a reputed client base ensures regular business, providing steady revenues**.**

Favourable demand outlook for the packed foods industry – The packed foods industry is expected to grow at a healthy pace in the future owing to a large population base, rising spending ability, increasing consumer consciousness about hygiene and cleanliness, and a shift in preference towards branded consumption. Unibic is expected to benefit from this growth as it operates in the premium biscuits segment.

Extensive experience of promoters – Unibic's promoters have more than two decades of experience in the biscuits industry. Over the years, Unibic has become an established brand in the business and enjoys good brand recognition and customer acceptance across India.

Credit challenges

Intense competition from local players and other established players – The company faces stiff competition from local/regional as well as national players as the market remains fragmented. In the biscuits segment, the competition remains high as the company faces stiff competition from established brands like Britannia, Anmol Industries, Mondelez, Parle and ITC among others, given its focus on the mid-premium and premium categories.

Vulnerability of profitability to raw material price increases – Given the intense competition in the segments in which the company operates, it is not possible to immediately and fully pass on any cost increases. As a result, Unibic's operating profitability remains vulnerable to major changes in raw material prices. This was witnessed in the past fiscal, wherein a sharp increase in the prices of palm oil (one of the key raw materials used in manufacturing biscuits) affected its operating margins.

Moderation in financial risk profile due to capex – The company has acquired a 100% stake in RPA Unibakes Private Limited and incurred a capex of Rs. 100 crore towards setting up a manufacturing facility of 36,000 MTPA in Hyderabad. The funding of the same was done via a mix of debt and equity, which resulted in a slightly leveraged capital structure. The same is characterised by a gearing of 1.4 times and TOL/TNW of 2.3 times as on March 31, 2023. However, comfort can be drawn from the fact that this facility is likely to reduce the company's dependence on outsourcing and thereby would aid Unibic in improving its operating margins, going forward.

Exposed to quality and reputation risks – Risks related to quality and reputation remain high as the company operates in the food industry.

Liquidity position: Adequate

Unibic's liquidity is expected to remain adequate owing to generation of healthy cash flow from operations and lower debt repayment obligations. This is corroborated by sparsely utilised working capital limits (more than Rs. 30 crore cushion in fund-based working capital limits in October 2023 against the drawing power). ICRA also notes that the entity does not have major capex plans in the near future. They have added new lines of production capacities in its subsidiary, for which Unibic has provided corporate guarantee.

Rating sensitivities

Positive factors – ICRA could upgrade Unibic's ratings if the company demonstrates a sustained increase in its operating income and profitability, leading to an improvement in its liquidity position on a sustained basis.

Negative factors – The ratings may be downgraded in case of sustained pressure on the company's operating performance, adversely impacting the debt protection metrics and liquidity position of the entity. Any large debt-funded capex or significant outflow of funds in the form of financial support to Group entities may also result in ratings downgrade. Specific credit metrics, which may lead to ratings downgrade include DSCR of less than 1.6 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of Unibic Foods India Private Limited

About the company

Unibic (erstwhile Unibic Biscuits India Private Limited) was incorporated in India in 2004 and manufactures speciality cookies. Unibic, established as the Indian arm of Unibic Australia, was acquired under a stake sale by Lazard in 2011 and was subsequently sold to Peepul Capital LLC in 2013. Unibic's manufacturing facility is in Bangalore and has an installed capacity of 36,000 metric tonnes per annum. In FY2023, the company has acquired a 100% stake in RPA Unibakes Private Limited, a manufacturing facility in Hyderabad with a capacity of 36,000 MTPA. The company's product range includes over 30 variants including chocochip, oatmeal, butter, cashew and milk, among others. Apart from manufacturing cookies under its own brands, it manufactures cookies under private label. The company holds British Retailers Consortium as well as Hazard Analysis and Critical Control Point certifications that highlight the quality of its products.

Key financial indicators (audited)

Unibic Foods India Private Limited (Consolidated)	FY2022	FY2023
Operating income	595.5	768.1
PAT	10.8	14.4
OPBDIT/OI	3.83%	3.76%
PAT/OI	1.81%	1.87%
Total outside liabilities/Tangible net worth (times)	1.1	2.3
Total debt/OPBDIT (times)	0.9	4.6
Interest coverage (times)	18.2	6.9

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

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2024)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as of March 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					Nov 27, 2023	Dec 09, 2022	Dec 28, 2021	Sept 22, 2020
1	Cash Credit	Long term	60.00	--	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB- (Stable)
2	Term Loan	Long term	-	--	-	[ICRA]BBB+ (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB- (Stable)
3	Bank Guarantee	Short term	-	--	-	[ICRA]A2	[ICRA]A3+	[ICRA]A3
4	Unallocated	Long/ Short term	0.03	--	[ICRA]BBB+ (Stable)/ [ICRA]A2	[ICRA]BBB+ (Stable)/ [ICRA]A2	[ICRA]BBB (Stable)/ [ICRA]A3+	[ICRA]BBB- (Stable)/ [ICRA]A3

Complexity level of the rated instruments

Instrument	Complexity Indicator
Fund-based – Cash Credit	Simple
Unallocated	NA

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	**Cash Credit**	NA	NA	NA	60.00	[ICRA]BBB+(Stable)
NA	**Unallocated**	NA	NA	NA	0.03	[ICRA]BBB+(Stable)/[ICRA]A2

Source: Company

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis

Company Name	Unibic Ownership	Consolidation Approach
Unibic Foods India Private Limited	100.00% (Rated Entity)	Full Consolidation
RPA Unibakes Private Limited	100.00%	Full Consolidation

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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.

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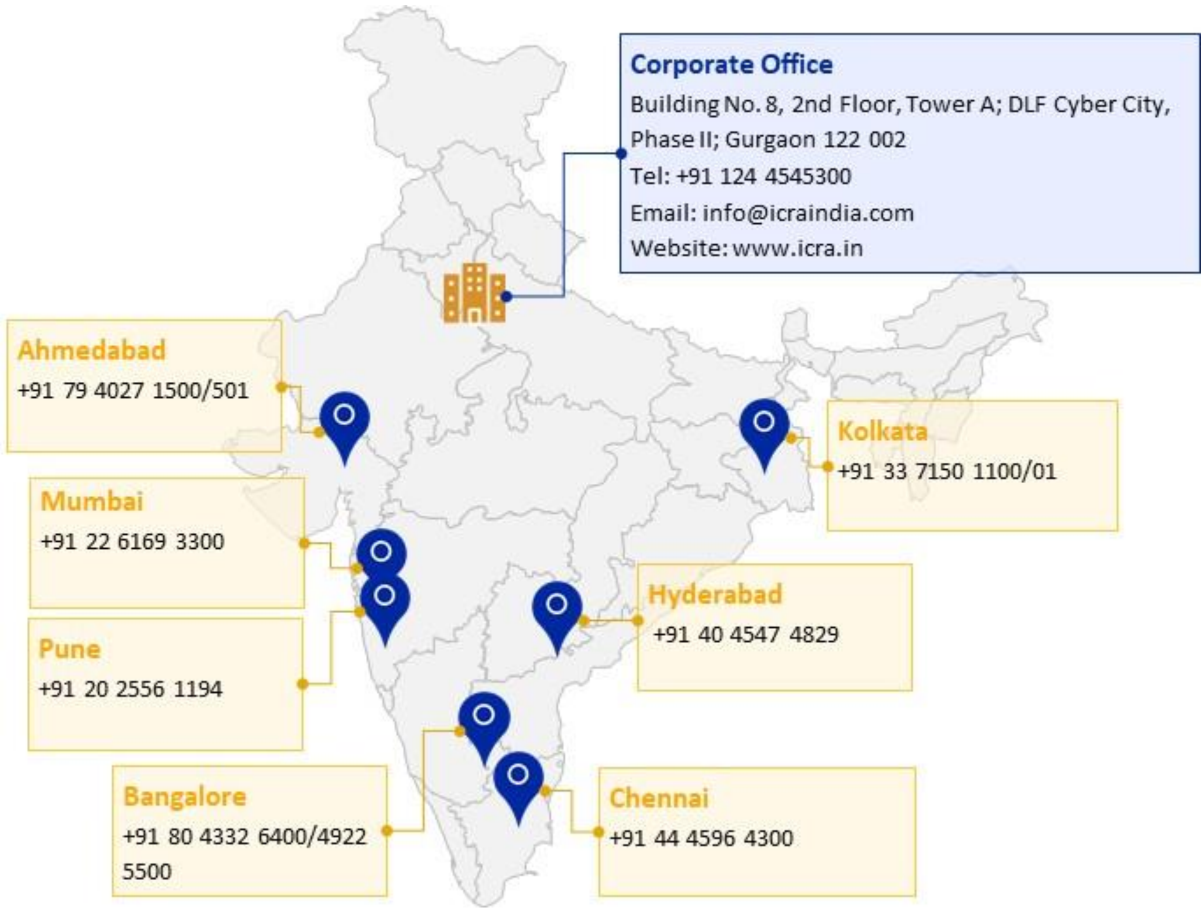

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