December 29, 2023

Accelerated Freeze Drying Company Limited: Ratings reaffirmed and rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount	Current Rated Amount	Rating Action
Long-term – Fund based (Term Loans)	USD 0.58 million	Rs. 1.04 crore + USD 0.35 million	[ICRA]BBB- (Stable); Reaffirmed
Short-term – Fund based working capital limits	Rs. 41.50 crore + USD 4.50 million	Rs. 80.50 crore + USD 4.25 million	[ICRA]A3; Reaffirmed/ Assigned
Short-term – Non-fund based limits	Rs. 1.90 crore	Rs. 1.90 crore	[ICRA]A3; Reaffirmed
Long-term – Unallocated limit	USD 1.67 million	USD 0.25 million	[ICRA]BBB- (Stable); Reaffirmed
Total	**Rs. 43.40 crore + USD 6.75 million**	**Rs. 83.44 crore + USD 4.85 million**	

**Instrument details are provided in Annexure-I*

Rationale

The ratings reaffirmation continues to factor in the comfortable operational profile of Accelerated Freeze Drying Company Limited (AFDC), 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. AFDC's presence in frozen and freeze-dried seafoods and other freeze-dried products (including vegetables, fruits and spices) diversifies the company's revenue stream, to an extent. In addition, the company's continuing linkage with its largest customer, the Nissin Foods Group (holding around 48% share in AFDC), strengthens its operational profile and ensures repeat orders. A significant increase in sales volumes by ~24%, mainly driven by frozen shrimps post commissioning of the new frozen foods plant in H2 FY2022, led to a healthy revenue growth (~23%) in FY2023. Nevertheless, the capacity utilisation of the new frozen seafoods facility remains low (~5% in FY2023), keeping the unit's turnover below the breakeven level. AFDC's healthy order book as of April 2023, which is ~1.4 times of sales in FY2023, is likely to translate into a robust revenue growth in FY2024 as well, despite some order deferrals for the frozen shrimps on the back of sluggish demand in the segment.

The ratings are constrained by AFDC's highly working capital-intensive nature of operations owing to significant inventory and receivables, which exert pressure on its liquidity, as reflected by almost full utilisation of the packing credit limits in the recent months. The company's debt level has increased consistently in the recent years mainly because of increasing working capital requirement, in tandem with the turnover growth. Sizeable working capital borrowings, capital-intensive nature of the freeze-drying facility and low capacity utilisation of the new frozen foods facility kept the ROCE at a modest level (7.8% in FY2023). The company's operating margin improved to 9.0% in FY2023 from 6.8% in FY2022, primarily supported by an improvement in realisation of freeze-dried shrimps by ~15%. Nevertheless, the operating margin is likely to moderate to some extent in the near-to-medium term due to incremental sales of frozen products, which are relatively less value-added and fetch lower margins than freeze-dried products, the main revenue driver at present. The ratings also factor in the susceptibility of AFDC's operating margin to raw material price fluctuations due to firm-price orders received from overseas customers on an annual basis and forex risks arising from an export-oriented nature of its business, though foreign currency loans provide partial natural hedge. ICRA also notes AFDC's high client and geographical concentration risks as a few large clients, mainly based in Japan and North America, account for the major portion of its revenue. Besides, the company remains vulnerable to adverse changes in the export incentives in India and foreign trade policies of importing nations. Any significant reduction in incentives by the Government or adverse changes in the foreign trade policies of the importing nations may affect AFDC's business profile.

The Stable outlook on the long-term rating reflects ICRA's opinion that AFDC's business positioning is likely to remain comfortable, given the company's established track record in seafoods export business and its strategic importance to the

Nissin Group, which is AFDC's largest buyer and a shareholder. AFDC's increasing profits and cash accruals, aided by scaling up of operation is likely to positively impact its financial profile, notwithstanding a rise in working capital borrowings.

Key rating drivers and their description

Credit strengths

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 various usages in the ready-to-eat foods segment. Commencement of frozen seafoods production from H2 FY2022 has diversified the company's product portfolio. 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.

Strong order book likely to maintain a healthy revenue growth in FY2024 despite sluggish demand for frozen foods – The company's overall sales volume grew by ~24% in FY2023 due to commissioning of the new frozen foods plant in H2 FY2022 along with strong demand for freeze-dried vegetables, fruits and herbs, leading to a healthy revenue growth of ~23% in FY2023. AFDC had orders worth ~Rs. 267 crore for the freeze-dried product segment and around Rs. 124 crore for the frozen seafood segment as on April 1, 2023, implying a total order book of ~Rs. 392 crore, which is ~1.4 times of AFDC's turnover in FY2023. The offtake for freeze-dried products remains strong, however, there have been some order deferrals for frozen foods due to sluggish demand in the segment. Nevertheless, the revenue growth is likely to remain robust in FY2024, aided by the healthy order book.

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 a renowned player 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 linkage with the reputed Nissin Foods Group ensures repeat orders.

Credit challenges

Susceptible to fluctuation in raw material prices and forex rates, however, foreign currency loans provide some natural hedge – AFDC's main raw materials for the freeze-dried products are sea-caught shrimp, which are available seasonally. Seasonal variation in supply and demand in the market leads to fluctuation in raw material prices and affects its margins as the company enters firm-price contracts with its customers on an annual basis. Moreover, increasing revenues from the frozen seafood segment, which fetches lower margins due to relatively lower value addition, are likely to keep the overall operating margin under check, going forward. However, the company sources a significant portion of vegetables and fruits from its own organic farm and through contract farming, which mitigate the raw material price risks for such products. AFDC's profit margins also remain exposed to fluctuation in foreign exchange rates as it derives revenues mainly from exports (93% of sales in FY2023). However, AFDC avails loans mainly in foreign currency, which provide some natural hedge against forex risks.

Exposed to client and geographical concentration risks – AFDC's top five customers contributed 69% to its total sales in FY2023. The share of its sales to the main customer, Nissin Foods Group, stood at 47% during the year, reflecting high client concentration risk. Besides, AFDC remains exposed to geographical concentration risks as the major portion of its exports are made to Japan and North America.

Vulnerable to adverse changes in export incentives and foreign trade policies of importing nations – AFDC is an export-oriented company and thus receives export incentives from the Government of India (GoI), which support its operating profitability. 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; packing credit limit remained almost fully utilised in recent months – The company's net working capital relative to the operating income (NWC/OI) stood at a high level of 35% in FY2023 (38% in FY2022) due to sizeable stocking requirements and receivables, exerting pressure on its liquidity and leading to a consistent increase in working capital borrowings in the recent years. The company's packing credit limits remained almost fully utilised in the recent months (98-99% in October and November 2023) despite an enhancement in the limit by Rs. 5 crore from June 2023 and any major delay in receipt of payment from its customers would strain the liquidity position further. Nevertheless, shorter production cycle of the new product line (frozen items) is likely to result in a moderation in the company's average inventory days, to some extent.

Liquidity position: Adequate

The company's liquidity profile is likely to remain adequate. Its high working capital requirement encumbers the cash flows to some extent. However, its cash flow from operations improved to ~Rs. 6.0 crore in FY2023 from Rs. 0.4 crore in FY2022. The company's packing credit limit remained almost fully utilised in the recent months, however, a buffer with respect to the drawing power remained available, which gives the entity a leeway to increase its banking limits. Some buffer in bill discounting facilities and free cash and bank balances (~Rs. 10 crore as on March 31, 2023) are likely to support the liquidity position. Its annual debt repayment obligation stands at Rs. 6-7 crore till FY2025. In the current fiscal, the company does not have any major capex plan. However, it plans to expand the freeze-drying capacity, which may entail a debt-funded capex of Rs. 100-150 crore in the medium term. The capex plan is at a nascent stage at present. The company is entitled to receive capital investment subsidy of around Rs. 6.5 crore for its new plant commissioned in FY2022. Receipt of the subsidy will support AFDC's liquidity, however, there has been a significant delay in receipt of the same.

Rating sensitivities

Positive factors – ICRA may upgrade the ratings if the company's profits, cash accruals and liquidity improve significantly on a sustained basis. Specific credit metrics that may lead to ratings upgrade include 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 rated 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). AFDC mainly used to process and export freeze-dried seafood, spices, vegetables and fruits till FY2021 and commenced production of frozen seafoods products on a large scale from FY2022. The company has two existing plants mainly for manufacturing of freeze-dried products in Cochin and Bangalore and commissioned a new plant for frozen items in November 2021. The existing Cochin plant, with a capacity of 650 metric tonnes per annum (MTPA), mainly processes seafood and partly pepper, whereas the Bangalore plant, with a capacity of 390 MTPA, processes herbs, spices, vegetables and fruits. The new frozen seafood facility, set up in Cochin, has a capacity of 18,900 MTPA.

Key financial indicators (audited)

AFDC (standalone)	FY2022	FY2023	Q1 FY2024*
Operating income	236.1	289.5	66.9
PAT	5.3	6.2	2.4^
OPBDIT/OI	6.8%	9.0%	5.7%
PAT/OI	2.2%	2.1%	3.6%^^
Total outside liabilities/Tangible net worth (times)	1.5	1.6	-
Total debt/OPBDIT (times)	6.8	4.4	-
Interest coverage (times)	3.8	3.4	2.2

*PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore; *Provisional; ^Profit before tax (PBT); ^^PBT/OI*

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	Amount outstanding as of Mar 31, 2023	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	
					Dec 29, 2023	Sep 29, 2022	Aug 26, 2021	Aug 21, 2020	May 08, 2020
1	Term loans	Long term	Rs. 1.04 crore + USD 0.35 million	Rs. 1.01 crore + USD 0.35 million	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Negative)	[ICRA]BBB- (Stable)
2	Fund-based working capital limits	Short term	Rs. 80.50 crore + USD 4.25 million	-	[ICRA]A3	[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	[ICRA]A3
4	Unallocated limit	Long term	USD 0.25 million	-	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[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 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	Current Rating and Outlook
-	**Term Loan -1**	May 2019	NA	Sep 2024	USD 0.35 million	[ICRA]BBB- (Stable)
-	**Term Loan -2**	Oct 2021	NA	Mar 2025	Rs. 1.04 crore	[ICRA]BBB- (Stable)
-	**Pre/Post Shipment Credit (including EPC/PCFC)**	NA	NA	NA	Rs. 46.50 crore + USD 4.25 million	[ICRA]A3
-	**Standby limit**	NA	NA	NA	Rs. 4.0 crore	[ICRA]A3
-	**Export Bill Purchase/ Discounting**	NA	NA	NA	Rs. 20.0 crore	[ICRA]A3
-	**Export Bill Negotiation**	NA	NA	NA	Rs. 10.0 crore	[ICRA]A3
-	**Letter of Credit**	NA	NA	NA	Rs. 1.50 crore	[ICRA]A3
-	**Bank Guarantee**	NA	NA	NA	Rs. 0.40 crore	[ICRA]A3
-	**Unallocated limit**	NA	NA	NA	USD 0.25 million	[ICRA]BBB- (Stable)

Source: Company

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

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

ANALYST CONTACTS

Jayanta Roy
+91 33 7150 1120
jayanta@icraindia.com

Kaushik Das
+91 33 7150 1104
kaushikd@icraindia.com

Sujoy Saha
+91 33 7150 1184
sujoy.saha@icraindia.com

Sovanlal Biswas
+91 33 7150 1181
sovanlal.biswas@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar
+91 22 6114 3406
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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For more information, visit www.icra.in

ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches