March 26, 2024

Bikanervala Foods Private Limited: Ratings reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based - Working Capital Facilities	55.00	73.50	[ICRA]A (Stable); Reaffirmed and assigned for enhanced amount
Long Term - Fund based Term Loans	40.34	269.37	[ICRA]A (Stable); Reaffirmed and assigned for enhanced amount
Short Term- Non-Fund based limits	8.03	27.50	[ICRA]A2+; Reaffirmed and assigned for enhanced amount
Total	**103.37**	**370.37**	

**Instrument details are provided in Annexure-I*

Rationale

For arriving at the ratings, ICRA has taken a consolidated view of Bikanervala Foods Private Limited (BFPL), its subsidiaries and Bikanervala Private Limited (BPL), together referred to as the Group, given the strong operational and financial linkages among the entities and common ownership of BFPL and BPL. As a part of the scheme filed with National Company Law Tribunal (NCLT), BFPL's restaurant business was demerged into a separate entity, BPL, with approvals received in July 2023 and the scheme becoming effective from April 1, 2022.

The ratings reaffirmation of BFPL factors in the expectation of sustained healthy growth in the Group's turnover along with improvement in profitability in the medium term, on the back of the ongoing capacity addition in the current fiscal and expectation of lower price of the company's key raw material (palm oil), as witnessed in the recent past. This is expected to generate healthy cash accruals in the near-to-medium term. The ratings continue to draw strength from the Group's strong operational profile with a well-entrenched distribution network across northern India, strong market position in the packaged food industry, and established presence and brand equity of Bikanervala and Bikano brands. The ratings also continue to factor in the inherently low working capital intensity of the business, which has supported adequate liquidity position with sufficient cushion in fund-based limits.

However, the ratings are constrained by the likely moderation in the Group's capitalisation and coverage metrics over the next two fiscals owing to the sizeable ongoing debt-funded capex. The said capex is nearing its completion and the Group has availed almost the entire sanctioned term debt in the current fiscal. Therefore, with sizeable scheduled repayment obligations in the upcoming fiscals, ICRA expects some moderation in the Group's financial risk profile. The Group would also be exposed to the risks of associated project execution and ramp-up of operations. Therefore, the Group's ability to achieve a healthy increase in operations after the project's completion will be a crucial determinant of its return metrics and the financial risk profile. Further, ICRA notes that the planned investment is approved under the Government's production linked incentive (PLI) scheme. The ratings also factor in BFPL's exposure to stiff competition from branded packaged food players, both large multinationals and medium-sized domestic players, as well as local sweets and savouries (namkeen) manufacturers and counterfeits. The company is also exposed to fluctuations in key raw material prices, which has resulted in volatility in margins in the past. Moreover, quality also remains a risk for the Group as it operates in the food industry.

Further, the Stable outlook on the long-term rating reflects ICRA's expectations that the Group will continue to benefit from the strong brand names of Bikanervala and Bikano and maintain a healthy growth in revenues in the medium term along with a healthy financial risk profile.

Key rating drivers and their description

Credit strengths

Healthy increase in revenues in past few fiscals, led by 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 from contract manufacturing. Though the contribution from segments other than snack products remains low in the company's total turnover, these revenue streams provide diversification vis-à-vis some of its peers, which are only involved in manufacturing and distribution.

Strong brand recognition and extensive distribution network – The Group has presence in two key segments, namely packaged foods/ snacks (sales of savouries and sweets) and restaurants, through BFPL and BPL, respectively. While it 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 well-recognised 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, etc, in the QSR business, besides the local players/unorganised segment. Further, 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.

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 in the recent fiscals.

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

Ongoing debt-funded capex to result in moderation in capitalisation and coverage metrics – BFPL is nearing the completion of a sizeable capex, having an estimated outlay of ~Rs. 360 crore under the Production Linked Incentive scheme (Category-I, Segment: Ready to Cook/Ready to Eat). The said capex has been 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 has led to a significant increase in the company's outstanding debt in the current fiscal. With an increase in repayment obligations from the upcoming fiscal, a moderation in capitalisation and coverage metrics is expected till the operations from the new unit ramp up,. Despite moderation, the company's capitalisation and coverage metrics are expected to remain comfortable in the medium term on the back of improved profitability in the current fiscal and the trend is likely to continue in the upcoming fiscals amid softening of prices of palm oil, the key raw material.

Exposure to execution and market risks associated with foray into southern India – 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.

Exposure to raw material price risk – 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, BFPL's operating profitability remains vulnerable to major changes in raw material prices. As witnessed in the past fiscals, a sharp increase in the prices of palm oil (one of the key raw materials used in manufacturing biscuits), sugar, flour etc. affected its operating margins.

Exposure to quality risks – As the company operates in the food industry, risks related to quality and reputation remain high.

Liquidity position: Adequate

BFPL's liquidity profile is adequate, as its net cash accruals of ~Rs.100 crore are expected to be adequate to fund its scheduled repayment obligations in the near-to-medium term (~Rs.70 crore in FY2025). The company also has a comfortable cushion in its fund-based working capital limits (averaging at ~Rs. 33 crore for the six-month period ended in November 2023), the utilisation of which stood at ~44% on an average (on lower of the drawing power and sanctioned fund-based limits) for the six-month period ended in November 2023. The company does not have any major capex plan in the upcoming fiscals.

Rating sensitivities

Positive factors – The ratings could be upgraded if the company's operations ramp up from the new projects, leading to a sustained growth in sales and improved profitability, translating into healthy capitalisation and coverage metrics. A specific metric for ratings upgrade include consolidated Debt/OPBITDA below 1.5 times on a sustained basis.

Negative factors – The ratings could be downgraded if the company experiences significant cost/ time overrun in the project, or a decline in the OI or profit margins, resulting in a material weakening in capitalisation and coverage metrics. A specific metric for a downgrade includes consolidated interest cover below 4 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 consolidated the financials of BFPL, its subsidiaries and Bikanervala Private Limited* (promoter group entity), given the strong operational and financial linkages among the entities. *With receipt of NCLT approval in the current fiscal, de-merger of BFPL (packaged foods business) and Bikanervala Private Limited (BPL, restaurant business), became effective from April 1, 2022. BPL has also given corporate guarantees to the sanctioned term loans of BFPL for Yamuna Expressway Facility.

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. Approval of NCLT for the same was received in July 2023 and the merger was effective from April 1, 2022.

Key financial indicators (audited)

	BFPL Consolidated + BPL*	
	FY2022	FY2023
Operating income	1,194	1,365
PAT	28	35
OPBDIT/OI	8.2%	9.2%
PAT/OI	2.4%	2.5%
Total outside liabilities/Tangible net worth (times)	1.2	1.6
Total debt/OPBDIT (times)	2.6	3.3
Interest coverage (times)	6.3	5.9

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore

**Consolidated as per ICRA's estimates*

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* (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					Mar 26, 2024	Feb 09, 2023	Dec 31, 2021	Sep 15, 2020
1	Fund- based - Working Capital Facilities	Long term	73.50	-	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A+ (Negative)	[ICRA]A+ (Stable)
2	Fund based Term Loans	Long term	269.37	269	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A+ (Negative)	[ICRA]A+ (Stable)
3	Non-Fund based limits	Shrot term	27.50	-	[ICRA]A2+	[ICRA]A2+	[ICRA]A1	[ICRA]A1

*Amount outstanding as on March 31, 2023

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	73.50	[ICRA]A (Stable)
NA	Term Loans	FY2017-FY2024	NA	FY2025-FY2029	269.37	[ICRA]A (Stable)
NA	Non-fund based limits	NA	NA	NA	27.50	[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	Ownership	Consolidation Approach
Bikanervala Private Limited	NA	100%
BFPL Infra Private Limited	100%	NA
P.K Delicacies Private Limited	100%	NA
Bikanervala Foods Inc (USA)	100%	NA
BFPL Singapore Pta Limited	100%	NA

Source: company

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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.

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