

September 30, 2024

Mrs. Bectors Food Specialities Limited: Long-term rating upgraded; short-term rating reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term fund-based bank facilities (Term loans)	224.5	122.85	[ICRA]AA (Stable); upgraded from [ICRA]AA-(Positive)
Long-term fund-based bank facilities (Cash credit)	40	40	[ICRA]AA (Stable); upgraded from [ICRA]AA-(Positive)
Short-term fund-based bank facilities	-	50	[ICRA]A1+; reaffirmed/assigned
Short-term non-fund-based bank facilities	5.5	14	[ICRA]A1+; reaffirmed/assigned
Long-term/Short-term Unallocated	-	198.15	[ICRA]AA (Stable); upgraded from [ICRA]AA-(Positive); [ICRA]A1+ reaffirmed/assigned
Total	270.00	425.00	

*Instrument details are provided in Annexure-I

Rationale

The long-term rating upgrade factors in the increased scale of operations of Mrs. Bectors Food Specialities Limited (MBFSL), led by a healthy YoY revenue growth in its biscuits and bakery segments and ICRA's expectation that business and financial risk profiles of MBFSL will continue to further strengthen over the near term. MBFSL reported a healthy YoY growth of 19% in its operating income in FY2024, led by a strong YoY growth in both its bread and bakery segments, supported by its established brands in biscuits and bakery segments, extensive experience of the promoters in the industry, its well-entrenched distribution network and wide market reach across northern India. The operating profit margins (OPM) also improved to more than 14% in FY2024 and Q1 FY2025, led by MBFSL's continued focus on premiumisation and healthy growth in the revenue share of biscuit exports. The company also benefits from its established relationships with reputed institutions for biscuit exports under private labelling and large quick service restaurant (QSR) clients for its institutional bakery items (buns and breads). The ratings also favourably factor in the successful completion of the qualified institutional placement (QIP), which has resulted in equity infusion of Rs. 400 crore in September 2024. The proceeds from this have been used for debt prepayment and towards part-funding the on-going capital expenditure (capex). This coupled with an improvement in cash flows will limit dependence on external debt and further strengthen its financial risk profile.

Led by the ongoing capacity enhancement in both the breads and the bakery businesses, the company is expected to have adequate capacity to scale up its operations over the medium term as well as regionally diversify its presence. ICRA expects MBFSL's revenues to grow by 14-15% in FY2025 and FY2026, led by its increasing distribution reach, with focus on expansion in western and southern regions. The OPMs are expected to remain in the range of 14-15% as benefits of the operating leverage will be largely offset by the company's investments towards marketing and brand-building investments. The ratings also continue to factor in the extensive experience of MBFSL's promoters in the food-processing industry, the company's regionally diversified manufacturing base across five states and favourable growth prospects for the industry.

The ratings, however, remain constrained by MBFSL's exposure 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 its presence in the food industry. Despite efforts made in the recent years to regionally diversify its presence, the company continues to derive most of its revenues from the North Indian states, exposing it to the geographical concentration risk. Notwithstanding the healthy YoY revenue growth, the overall scale of operations remains moderate vis-à-

vis the large established players, having pan-India presence. The ratings continue to be constrained by its exposure 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 MBFSL's presence in the food industry.

The Stable outlook on the long-term rating reflects ICRA's expectation of continued improvement in business and financial risk profiles of the company, led by improving geographical presence and brand penetration.

Key rating drivers and their description

Credit strengths

Healthy revenue growth; strong financial risk profile bolstered by recent QIP – MBFSL reported a healthy YoY increase of 19% in its operating income in FY2024, led by a strong YoY growth in both its bread and bakery segments, supported by its established brands in both the segments, extensive experience of the promoters in the industry, its well-entrenched distribution network and wide market reach across North India. Aided by MBFSL's continued focus on premiumisation and increasing share of business exports, the OPM of MBFSL increased to 14.9% in FY2024 vis-à-vis 12.4% in FY2022. Despite consistent capex undertaken towards capacity expansion, MBFSL's reliance on term debt has remained limited over the years, supported by healthy cash flow generated from operations. Together with consistent accretions to the net worth, this has translated into a comfortable capital structure, as reflected by a gearing of 0.4 times and total outside liabilities vis-à-vis the tangible net worth of 0.7 times as on March 31, 2024. Besides healthy profit margins, this led to strong debt coverage indicators, with an interest cover of 20.5 times and total debt vis-à-vis the operating profit before interest, depreciation and taxes (OPBDITA) of 1.0 times as on March 31, 2024. The company is the middle of undertaking large capex of Rs. 350 crore in FY2025 and Rs.100 to Rs.150 crore in FY2026, towards greenfield capacity expansion. Notwithstanding this, the financial profile is expected to remain satisfactory, supported by the recently concluded QIP, which resulted in an equity infusion of Rs. 400 crore. The proceeds from this have been used for debt prepayment (Rs. 155 crore) done in September 2024 and towards part-funding of the ongoing capex. This coupled with an improvement in cash flows will limit dependence on external debt and further strengthen its financial risk profile.

Healthy operational profile, characterised by well-recognised brands and established relationships with renowned clients – MBFSL's 'English Oven' and 'Cremica' brands are well recognised in the organised bakery/biscuits industry and have a strong presence and customer acceptance, especially in northern India. Besides, the company benefits from strong distribution reach and network of distributors, super stockists and retail outlets across the northern states of the country. The company also has an established manufacturing footprint, with seven units in five states. In addition, MBFSL manufactures biscuits under private labelling, supplies buns to institutional clients and has a diversified export presence. Established relationships with a reputed client base ensure regular business, thereby providing steady revenues.

Favourable demand outlook for the packaged foods industry – The packaged foods industry is expected to grow at a healthy pace in the future owing to India's large population base, rising spending ability, increased consumer consciousness of hygiene and cleanliness, and a shift in preference towards branded products. MBFSL is expected to benefit from this growth as it operates in the premium biscuits and breads segment.

Extensive experience of promoters – MBFSL was founded by Mrs. Rajni Bector (Chairperson Emeritus) and is currently led by Mr. Anoop Bector. The promoters have more than three decades of experience in the biscuits and bakery industry. In the recent past, the company has also strengthened its leadership and operational teams as it onboarded experienced professionals at various positions (including CEO, IT head, project head, CHRO and CFO), which is expected to further support the company's strategy of expanding its presence across various geographies in the medium term.

Credit challenges

Geographical concentration of revenues in northern states – The company generates a substantial portion of its biscuits-segment revenues from north Indian states like Punjab, Jammu & Kashmir, Haryana, Uttar Pradesh, among others, and bakery-

segment (retail) revenues from the National Capital Region (NCR), Mumbai and Bengaluru. This exposes the company to geographical concentration risks. Notwithstanding the healthy YoY revenue growth, the overall scale of operations remains moderate vis-à-vis the large established players, having pan-India presence. However, the company is gradually expanding its manufacturing network across the country to strengthen its presence in other regions, mainly western and southern regions. The company is expanding its bread and buns making capacity in Khopoli (Maharashtra) to deepen its reach in Mumbai and Pune markets, which have high demand for premium bakery products. Further, with new biscuit capacities coming up in Dhar (Madhya Pradesh), penetration into central, eastern and southern markets will become more feasible in terms of cost economics.

Intense competition from local and other established players – In the breads segment, the company faces stiff competition from local/regional as well as national players as the market remains a fragmented one. In the biscuits segment as well, the company faces stiff competition from established brands and companies like Britannia Industries Limited, Anmol Industries Limited, Mondelez India Fooda Limited, Parle Products Private Limited and ITC Limited, to name a few, given its focus on the mid-premium and premium categories.

Vulnerability of profitability to raw material price increases, quality and reputation risks – Given the intense competition in the segments in which the company operates, it is not possible to immediately and fully pass on any cost increase. As a result, MBFSL'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 among others, adversely impacted its operating margins. As the company operates in the food industry, risks related to quality and reputation remain high.

Environmental and Social Risks

Environmental considerations: FMCG companies remain exposed to the impact of changes in environmental norms with respect to the treatment of manufacturing residual discharge/waste. Accordingly, MBFSL could face operational disruptions if regulatory norms are not complied with. Further, with increasing awareness and restrictions on usage of different grades of plastics for packaging and finding environment-friendly solutions, the company's cost structure may be impacted. There is also a trend towards using organically grown input materials. Such developments can potentially increase costs for FMCG companies like MBFSL. As the company has considerable dependence on agri commodities, the company remains exposed to agro-climatic risks, which could result in variation in crop output/prices. Overall, entities in the FMCG industry have a low exposure to environmental risks, further supported by their better pricing power, reflected in their ability to pass on the increase in cost over time.

Social considerations: On the social front, the FMCG sector has a prominent dependence on human capital, in terms of direct and indirect employees as well as contractual labour. Besides, there could be quality concerns that FMCG entities like MBFSL could face, which may adversely impact its brand. Besides, there are risks that an entire product category could face out of the social considerations that pertain to health consciousness. While these risks are product category-specific, the overall exposure of the FMCG sector to social risks remains low to moderate.

Liquidity position: Adequate

MBFSL's liquidity profile is **adequate** aided by healthy cash flow generation from operations, moderate debt repayment obligations, and phased capex implementation plans, which are expected to keep the company's reliance on external funding sources limited. This is corroborated by healthy liquid balances (liquid investments and free cash and bank balances of ~Rs. 120 crore as on June 30, 2024) and cushion in utilised working capital limits. The liquidity position is also supported by QIP proceeds of around Rs. 230 crore, which are unutilised as on date. ICRA expects the company's consolidated cash flow from operations as well as accumulated cash and liquid investments to be sufficient to meet its capex as well as debt servicing requirements in the near-to-medium term. The company is expected to undertake capex of Rs. 350 crore in FY2025 and Rs 100 to 150 crore in FY2026 for greenfield expansions at Dhar and Khopoli plants. The same would be funded by a mix of QIP funds, internal accruals and debt.

Rating sensitivities

Positive factors – The long-term rating may be upgraded if the company witnesses a significant growth in its revenues along with expansion in new product categories and increased regional diversification, while improving its profitability, leverage/coverage metrics and liquidity profile on a sustained basis.

Negative factors – The ratings may be downgraded in case of a material decline in revenues and/or profit margins, or a sizeable debt-funded capex, which adversely impacts MBFSL's debt protection metrics and liquidity position on a sustained basis. Specific metrics that may result in ratings downgrade include total debt vis-à-vis OPBITDA of more than 1 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in FMCG Industry
Parent/Group support	Not applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of Mrs. Bectors Food Specialities Limited. As on March 31, 2024, the company had three subsidiaries and an associate that are enlisted in Annexure-2.

About the company

Incorporated in 1995, MBFSL manufactures biscuits and bakery products that are marketed under Mrs. Bector's Cremica and Mrs. Bector's English Oven brands, respectively. MBFSL has manufacturing units at seven locations, namely Phillaur (Punjab), Tahlial (Himachal Pradesh), Rajpura (Punjab), Bhiwadi (Rajasthan), Greater Noida (Uttar Pradesh), Mumbai (Maharashtra), and Bengaluru (Karnataka). The company operates in the consumer segment through its network of distributors and retailers, besides supplying to export markets and catering to institutional customers.

MBFSL was originally established as a joint venture (JV) with Quaker Oats for supplying condiments such as ketchup and sauces to McDonalds. The JV partner withdrew in 1999 and in 2007, the biscuits and bakery businesses were transferred to MBFSL through a slump sale. During 2013-2014, the company, pursuant to a business reorganisation scheme, demerged its food supplements (sauces, spreads, and namkeen) division to a separate company named Cremica Food Industries Limited. In December 2020, the company got listed on the Bombay Stock Exchange and the National Stock Exchange.

Key financial indicators (audited, consolidated)

MBFSL Consolidated	FY2023	FY2024
Operating income	1,362	1624
PAT	90	140
OPBDIT/OI	12.9%	14.9%
PAT/OI	6.6%	8.6%
Total outside liabilities/Tangible net worth (times)	0.5	0.7
Total debt/OPBDIT (times)	0.7	1.0
Interest coverage (times)	13.6	20.5

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

	Instrument	Current rating (FY2025)			Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022
				September 30, 2024	July 20, 2023	Sep 06, 2022	Aug 12, 2021
1	Long-term fund-based bank facilities (Term loans)	Long-term	122.85	[ICRA]AA(Stable)	[ICRA]AA- (Positive)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)
2	Long-term fund-based bank facilities (Cash credit)	Long-term	40	[ICRA]AA(Stable)	[ICRA]AA- (Positive)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)
3	Fund-based bank facilities	Short-term	50	[ICRA]A1+	-	[ICRA]A1+	[ICRA]A1+
4	Non-fund-based bank facilities	Short-term	14	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
5	Short-term/long-term unallocated limits	Long-term/short-term	198.15	[ICRA]AA(Stable)/[ICRA]A1+	-	[ICRA]AA- (Stable)/[ICRA]A1+	[ICRA]AA- (Stable)/[ICRA]A1+

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based bank facilities (Term loans)	Simple
Long-term fund-based bank facilities (Cash credit)	Simple
Fund-based bank facilities	Simple
Non-fund-based bank facilities	Very simple
Short-term/long-term unallocated limits	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 (Rs. crore)	Current Rating and Outlook
NA	Long-term fund-based bank facilities (Term loans)	NA	NA	NA	122.85	[ICRA]AA(Stable)
NA	Long-term fund-based bank facilities (Cash credit)	NA	NA	NA	40	[ICRA]AA(Stable)
NA	Fund-based bank facilities	NA	NA	NA	50	[ICRA]A1+
NA	Non-fund-based bank facilities	NA	NA	NA	14	[ICRA]A1+
NA	Short-term/long-term unallocated limits	NA	NA	NA	198.15	[ICRA]AA(Stable)/[ICRA]A1+

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	MBFSL Ownership	Consolidation Approach
Bakebest Foods Private Limited	100%	Full Consolidation
Mrs. Bectors English Oven Limited	100%	Full Consolidation
Mrs. Bectors Food International FZE	100%	Full Consolidation
Cremica Agro Foods Limited	43.09%	Equity Method

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