February 5, 2025

Accelerated Freeze Drying Company Limited: Ratings reaffirmed; outlook revised to Positive; rated amount enhanced

Summary of rating action

Instrument*	Previous rated amount (Rs. crore)	Current rated amount (Rs. crore)	Rating action
Long term – Fund-based Limits – Term Loan	Rs. 1.04 crore + USD 0.35 million	-	-
Long term – Unallocated Limits	USD 0.25 million	-	-
Short term – Fund-based Limits – Working Capital Facilities	Rs. 80.50 crore + USD 4.25 million	-	-
Short term – Non-fund-based Limits – Working Capital Facilities	Rs. 1.90 crore	Rs. 1.90 crore	[ICRA]A3, reaffirmed
Long term/ Short term – Fund-based Limits – Working Capital Facilities	-	Rs. 100.50 crore + USD 4.50 million	[ICRA]BBB-/ [ICRA]A3 reaffirmed; outlook revised to Positive from Stable/ assigned for enhanced amount
Total	**Rs. 83.44 crore + USD 4.85 million**	**Rs. 102.40 crore + USD 4.50 million**	

**Instrument details are provided in Annexure I*

Rationale

The revision in the long-term rating outlook of Accelerated Freeze Drying Company Limited (AFDC) to Positive from Stable considers a steady increase in the scale of operations of the company over the past few years and ICRA's expectation that the growth momentum would continue in the medium term. A likely increase in the scale of operations would lead to a growth in the overall profits and cash accruals, and a gradual improvement in debt protection metrices.

Meanwhile, the ratings continue to factor in the comfortable operational profile of 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) provides certain level of diversification to the company's revenue stream. In addition, the company's continuing relationship with its largest customer, the Nissin Foods Group (holding around a 48% stake in AFDC), strengthens its operational profile and ensures repeat orders. ICRA notes that the company's scale of operations witnessed a steady growth over the past few years, driven by strong and consistent demand of freeze-dried products along with increasing off-take from the frozen food segment. The capacity utilisation of the frozen seafoods facility remained low due to sluggish demand in the segment, although the same witnessed a rising trend in the recent past (~20% in H1 FY2025). AFDC's healthy order book as of April 2024, which is ~1.3 times of sales in FY2024, is likely to translate into a robust revenue growth in FY2025 as well.

The ratings are constrained by AFDC's highly working capital intensive nature of operations owing to significant inventory holding and high receivables, which exert pressure on its liquidity, as reflected by almost full utilisation of the packing credit limits in the recent months. The overall debt level of the company has consistently increased in the recent years, primarily driven by an increase in the working capital borrowings to meet its increased scale of operations. 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 of 8.2% in FY2024 (7.8% in FY2023). The operating profit margin (OPM) of AFDC declined to 8.1% in FY2024 from 9.0% in FY2023, primarily driven by an increased share of sale of frozen food products, which are relatively less value-added and fetch comparatively lower margins than freeze-dried products. Nevertheless, in view of depreciation of the INR against the USD, benefits arising from economies of scale and production of more value-added products, ICRA expects the OPM of the company to improve to an extent and is likely to remain in the range of 8-9% in FY2025 and FY2026. 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.

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 products 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 since FY2022 has diversified the company's product portfolio but garners lower margin as it is less value additive. 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.

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 countries. The Nissin Foods Group holds around a 48% stake in AFDC and is the largest customer of the company. AFDC's strategic linkage with the reputed Nissin Foods Group ensures repeat orders.

Increasing scale of operations; strong order book likely to maintain a healthy revenue growth in FY2025 – The operating income of AFDC witnessed a steady increase over the past few years, registering a CAGR of around 14% during FY2020-2024, supported by repeat orders from its reputed clientele, which reflects the acceptability of the company's products in the international market. Strong demand of freeze-dried products along with increasing revenue from frozen food products led to a growth in its top line to around Rs. 327 crore in FY2024 from around Rs. 290 crore in FY2023, registering a YoY growth of around 13%. A sizeable increase in the volume off-take of frozen food products led to a sizeable revenue growth in the current fiscal. In H1 FY2025, the company reported an operating income of around Rs. 190 crore vis-à-vis around Rs. 138 crore in H1 FY2024, registering a YoY growth of around 38%. AFDC had orders worth around Rs. 279 crore for the freeze-dried product segment and around Rs. 147 crore for the frozen seafood segment as on April 1, 2024, implying a total order book of around Rs. 426 crore, which is ~1.3 times of the company's turnover in FY2024. In view of a consistent favourable demand of freeze-dried products along with sizeable increase in the volume off-take of frozen food products, ICRA expects the top line of the company to grow by 25-30% in FY2025 on a YoY basis.

Credit challenges

Susceptible to fluctuation in raw material prices and forex rates, however, foreign currency borrowings provide 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 (94% of sales in

FY2024). However, AFDC avails a major portion of its borrowings in foreign currency, which provide some natural hedge against forex risks.

Exposed to client and geographical concentration risks – AFDC's top five customers contributed 67% (69% in FY2023) to its total sales in FY2024. The share of its sales to the main customer, Nissin Foods Group, stood at 38% (47% in FY2023) during the year, reflecting high client concentration risk. Besides, AFDC remains exposed to geographical concentration risk as the major portion of the exports is 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 exerts pressure on liquidity – The net working capital relative to the operating income (NWC/OI) of the company stood at a high level of 38% in FY2024 (35% in FY2023) 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 past 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

AFDC generated negative cash flow from operations in FY2024, driven by an increase in the scale of operations, coupled with an increase in the working capital intensity. Despite a likely marginal improvement in the working capital intensity, sizeable increase in the scale of operations of the company is expected to keep its cash flow from operations negative in FY2025. The company's packing credit limit remained almost fully utilised in the recent months, however, a buffer with respect to the drawing power remains available, which gives the entity a leeway to increase its banking limits. Some buffer in bill discounting facilities and free cash and bank balances/ liquid investments (~Rs. 15 crore as on March 31, 2024) are likely to support the liquidity position. The company has long-term debt repayment obligations of Rs. 5-7 crore in the next few years. The DSCR of the company stood at around 1.5 times as on March 31, 2024. With reduced repayment obligations along with an improvement in the cash accruals, the same is likely to improve, going forward. AFDC is expected to generate cash accruals of Rs. 20-25 crore over the next two years, which would be adequate to meet its incremental working capital requirements, long-term debt repayment obligations and moderate capital expenditure. The company is also likely to obtain a term loan of Rs. 25 crore for the proposed acquisition (capex of around Rs. 35 crore) of the food processing units, partially in the current fiscal and the balance in the next fiscal, which is expected to provide additional buffer to its liquidity position. ICRA expects the overall liquidity position of the company to remain adequate, going forward.

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 – The outlook on the long-term rating may be revised to Stable if there is a deterioration in the company's profitability and liquidity position. 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 entity.

About the company

Incorporated in 1986 in Kochi, Kerala, AFDC is promoted by Amalgam Foods Limited, Kochi (a 52% shareholding) in collaboration with Nissin Foods, Hong Kong (a 27% shareholding) and Nissin Foods, Singapore (a 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 plants mainly for manufacturing of freeze-dried products in Kochi and Bangalore and commissioned the new plant for frozen food items in Kochi in November 2021. The existing Kochi plant, with a capacity of 770 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, with a production capacity of 12,320 MTPA, processes primarily shrimps, squids etc.

The company is in the process of acquisition of one food processing (ready to eat/ ready to cook) facility in Kochi, Kerala and one pre-processing unit for marine food products at Nellore, Andhra Pradesh. The proposed acquisition is likely to be made in March/ April 2025.

Key financial indicators (audited)

AFDC (standalone)	FY2023	FY2024	H1 FY2025*	H1 FY2024*
Operating income	289.5	326.7	189.6	137.5
PAT	6.2	6.4	-	-
OPBDIT/OI	9.0%	8.1%	8.0%	8.8%
PAT/OI	2.1%	2.0%	-	-
Total outside liabilities/Tangible net worth (times)	1.6	1.8	-	-
Total debt/OPBDIT (times)	4.4	5.1	-	-
Interest coverage (times)	3.4	2.8	2.9	3.0

*Source: Accelerated Freeze Drying Company Limited, ICRA Research; * Provisional numbers; All ratios as per ICRA's calculations; Amount in Rs. crore*
PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

		Current rating (FY2025)		Chronology of rating history for the past 3 years					
				FY2024		FY2023		FY2022	
Instrument	**Type**	**Amount rated (Rs. crore)**	**Feb 5, 2025**	**Date**	**Rating**	**Date**	**Rating**	**Date**	**Rating**
Term Loans	Long term	-	-	Dec 29, 2023	[ICRA]BBB- (Stable)	Sep 29, 2022	[ICRA]BBB- (Stable)	Aug 26, 2021	[ICRA]BBB- (Stable)
Fund-based working capital facilities	Short term	-	-	Dec 29, 2023	[ICRA]A3	Sep 29, 2022	[ICRA]A3	Aug 26, 2021	[ICRA]A3
Non-fund-based working capital facilities	Short term	Rs. 1.90 crore	[ICRA]A3	Dec 29, 2023	[ICRA]A3	Sep 29, 2022	[ICRA]A3	Aug 26, 2021	[ICRA]A3
Fund-based working capital facilities	Long term/ short term	Rs. 100.50 crore + USD 4.50 million	[ICRA]BBB- (Positive)/ [ICRA]A3	-	-	-	-	-	-
Unallocated limits	Long term	-	-	Dec 29, 2023	[ICRA]BBB- (Stable)	Sep 29, 2022	[ICRA]BBB- (Stable)	Aug 26, 2021	[ICRA]BBB- (Stable)

Complexity level of the rated instruments

Instrument	Complexity indicator
Long term/ Short term – Fund-based working capital	Simple
Short term – Non-fund-based working capital	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	Current rating and outlook
NA	**Fund-based working capital facilities 1**	-	-	-	Rs. 51.50 crore	[ICRA]BBB- (Positive)/ [ICRA]A3
NA	**Fund-based working capital facilities 2**	-	-	-	Rs. 49.00 crore	[ICRA]BBB- (Positive)/ [ICRA]A3
NA	**Fund-based working capital facilities 3**	-	-	-	USD 4.50 million	[ICRA]BBB- (Positive)/ [ICRA]A3
NA	**Non-fund-based working capital facilities**	-	-	-	Rs. 1.90 crore	[ICRA]A3

Source: Accelerated Freeze Drying Company Limited

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

Annexure II: List of entities considered for consolidated analysis

Not applicable

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