

Aditi Foods (India) Private Limited

May 09, 2018

Summary of rated instruments

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Fund based-Term Loan	9.50	[ICRA]BB+ (Stable); Assigned
Fund based- Working Capital Facilities	3.00	[ICRA]BB+ (Stable); Assigned
Total	12.50	

*Instrument details are provided in Annexure-1

Rating action

ICRA has assigned a long-term rating of [ICRA]BB+ (pronounced ICRA double B plus) to the Rs. 12.50-crore¹ fund-based facilities of Aditi Foods (India) Private Limited (AFIPL or the company)². The outlook on the long-term rating is Stable.

Rationale

The assigned rating favourably factors in the extensive experience of the promoters in the food processing industry; and healthy profitability indicators, given the value-added nature of the business. The rating also considers the Stable demand for processed foods and the support provided by the Government in the form of various incentives such as the Vishesh Krishi Upaj Yojana (VKUY) scheme and capital subsidies under the Sampada Scheme.

The rating, however, remains constrained by AFIPL's modest scale of operations and its low net worth base, resulting in leveraged capital structure. The rating also factors in the vulnerability of availability and prices of raw materials to agro-climatic conditions; exposure of the company's profitability to foreign currency risks to the extent of unhedged receivables; and intense competition from the food processing units, especially the organised entities that also has a bearing on the growth and the profitability of the company.

Outlook: Stable

ICRA expects Aditi Foods (India) Private Limited to continue to benefit from the extensive experience of its promoters and from its established track record in the processed food industry. The outlook may be revised to Positive if substantial growth in revenues, while maintaining healthy profitability, strengthens the financial risk profile. The outlook may be revised to Negative if cash accrual is lower than expected, or if any major debt-funded capital expenditure, or stretch in the working capital cycle, weakens liquidity.

Key rating drivers

Credit strengths

Extensive experience of the promoters in the food processing industry - AFIPL's operations are overseen by the promoters Mr. Dinkar Patil and his sons, Mr. Bhagatisingh Patil and Mr. Pruthviraj Patil. Mr. Dinkar Patil has been

¹ 100 lakh = 1 crore = 10 million

² For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications

involved in the food processing industry for the past 26 years. Mr. Patil is assisted by Mr. Bhagatisingh Patil and Mr. Pruthviraj Patil in the daily operations of the company. The Patil family has also promoted Aditi Packaging Industries, Vaishali Packaging Industries and Omgurudev Packers, along with the cooperative society, Walwa Taluka Shetkari Bhaajipaala Kharedi Vikri va Prakriya Sanstha Limited, which is involved in trading various agri inputs like seeds, fertilisers, and pesticides, among others.

Healthy profitability indicators – The company has maintained healthy operating as well as net profit margins over the last four fiscals. At the operating levels, the company's margins have remained in the range of 15-19% over the last four fiscals on account of the high value-added nature of operations, while the net profit margins have remained in the range of 8-10%. Given the healthy profitability, the return indicators have also remained strong with RoCE at 34.53% in FY2017 and 32.48% in FY2018. The operating margins have increased to ~19.92% in FY2018 (provisional) from 16.36% in FY2017 and are expected to witness some further improvement with removal of bottlenecks in the production process, which the company intends to implement in FY2019.

Stable demand for food products unrelated to economic cycles; Government support to the food processing industry through various incentives – Given the significant rise in disposable income, coupled with the population growth, the demand for processed foods has been increasing. Thus, benefitting the food processing industry globally. The Government of India has launched the Vishesh Krishi Upaj Yojana (VKUY) scheme to promote export of fruits, vegetables, flowers, minor forest produce and their value-added products. Exporters of such products are entitled for duty credit scrip equivalent to 5% of the FOB value of exports for each licensing year commencing from April 01, 2004. The company has received Rs. 0.95 crore in FY2016 and Rs. 0.94 crore in FY2017 under this scheme from Director General Foreign Trade (DGFT). The company is also expected to benefit from the Ministry of Food Processing, Central Government's capital subsidy scheme, Sampada, for the proposed capex.

Credit challenges

Financial profile characterised by modest scale of operations and leveraged capital structure: AFIP is a modest sized player in the food processing industry with operating income of Rs. 34.57 crore in FY2017 as compared to Rs. 31.58 crore in FY2016. The company in FY2018 has reported an operating income of Rs. 37.70 crore (provisional), registering a moderate growth of 9% over the previous fiscal. The net worth base of the company has remained small and was negative till FY2015 on account of heavy losses suffered in the past. Given the low net worth base, the capital structure has remained leveraged with gearing of 1.39 times as on March 31, 2017, although it improved from 5.51 times as on March 31, 2016, given the Rs. 2.44 crore equity infusion during the year. The gearing has further improved to 1.09 times as on March 31, 2018. The coverage indicators have remained adequate with Total Debt/OPBIDTA of 1.81 times, TOL/TNW of 1.14 times interest coverage of 4.71 times and NCA/Debt of 42% in FY2018. TD/OPBIDTA and NCA/Total Debt have improved to 1.81 times and 42%, respectively, in FY2018 (provisional).

Vulnerability of availability and prices of raw materials to agro-climatic conditions – The seasonal nature of raw materials, mainly mango, tomato and vegetables, requires the company to purchase and stock them in adequate quantities to avoid any stock outs, which would adversely impact production. The company remains exposed to lower availability and increase in prices of key raw materials due to adverse agro-climatic conditions, which may impact its profitability levels; though the company tries to manage the risk by procuring the raw materials from different geographies.

Vulnerability of profitability to unfavourable movements in foreign exchange rate – The company's revenues are dominated by exports, which account for approximately 65-70% of its total annual sales that exposes it to foreign exchange risks. There is no natural hedge in the form of imports, which enhances the risk further. However, the company books forward contracts to hedge a part of its foreign currency exposure, which mitigates the risk to an extent.

Intense competition in the food processing industry, especially from the organised sector – The company faces intense competition, especially from organised players on exports, though established relationships with the clients, especially in the overseas markets, has resulted in repeat orders.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria:

[Corporate Credit Rating Methodology](#)

About the company:

Incorporated in 1992, Aditi Foods (India) Private Limited is engaged in processing fruits and vegetables, primarily mango and tomato, among others. The Islampur, Sangli-based company in Maharashtra has an installed processing capacity of 50 Metric Tonnes (MT) of mango per day and 20 MT of tomatoes per day. The promoter, Patil family, has also promoted Aditi Packaging Industries, Vaishali Packaging Industries and Omgurudev Packers, along with the cooperative society, Walwa Taluka Shetkari Bhaajipaala Kharedi Vikri va Prakriya Sanstha Limited. AFIPL is ISO 220005 certified as well as BRC Global Standards and US FDA certified. AFIPL markets its products under the brands, 'Aditi', 'Halo' and 'Pruthvi', in the domestic and overseas markets.

In FY2017, the company reported a net profit of Rs. 3.26 crore on an operating income of Rs. 34.57 crore, as compared to a net profit of Rs. 2.99 crore on an operating income of Rs. 31.58 crore in the previous year. In FY2018, the company has reported an operating income of Rs. 37.70 crore (provisional) and profit before tax of Rs. 5.02 crore.

Key financial indicators (audited)

	FY 2016	FY 2017	FY2018 (Provisional)
Operating Income (Rs. crore)	31.58	34.57	37.70
PAT (Rs. crore)	2.99	3.26	5.02 ³
OPBDIT/ OI (%)	17.63%	16.36%	19.92%
RoCE (%)	29.45%	34.53%	32.48%
Total Debt/ TNW (times)	5.51	1.39	1.09
Total Debt/ OPBDIT (times)	1.90	1.88	1.81
Interest coverage (times)	4.36	4.41	4.71
NWC/ OI (%)	15%	16%	22%

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

Instrument	Current Rating (FY2019)	Chronology of Rating History for the
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³ Profit before tax

		past 3 years					
		Amount	Amount	Date &	Date &	Date &	
		Rated	Outstanding	Rating	Rating in	Rating in	
		(Rs. crore)	(Rs. crore)	May 2018	FY2018	FY2017	
Type							
1	Term Loan (Proposed)	Long Term	5.00	-	[ICRA]BB+ (Stable)	-	-
2	Term Loan	Long Term	4.50	2.85 [^]	[ICRA]BB+ (Stable)	-	-
3	Cash Credit	Long Term	3.00	-	[ICRA]BB+ (Stable)	-	-

[^]as on March 31, 2017

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loan (Proposed)	-	NA	-	5.00	[ICRA]BB+(Stable)
NA	Term Loan	March-2013	NA	January-2020	4.50	[ICRA]BB+(Stable)
NA	Cash Credit	NA	NA	NA	3.00	[ICRA]BB+(Stable)

Source: Aditi Foods (India) Private Limited

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