March 31, 2020 Revised

Iscon Balaji Foods Pvt. Ltd.: Ratings reaffirmed, rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based Term Loan	49.04	52.98	[ICRA]BBB(Stable); reaffirmed
Fund-based Working capital limits	35.00	89.95	[ICRA]BBB(Stable); reaffirmed
Fund-based Cash Credit/WCDL/EPC Sublimit to WCDL	(35.00)	(45.00)	[ICRA]BBB(Stable)/[ICRA]A3+; reaffirmed
Fund/Non-fund Based Buyer's credit/Capex LC -Sublimit to Term Loan	(29.7)	(19.98)	[ICRA]BBB(Stable)/[ICRA]A3+; reaffirmed
Non-fund Based - Bank Guarantee/LC	1.70	8.70	[ICRA]A3+; reaffirmed
Fund-based Forex Exposure	1.33	1.33	[ICRA]A3+; reaffirmed
Fund-based/Non-fund Based - Unallocated Limits	0.80	0.00	[ICRA]BBB(Stable)/[ICRA]A3+; reaffirmed
Total	**87.87**	**152.96**	

**Instrument details are provided in Annexure-1*

Rationale

The reaffirmation in ratings continues to take into account the operational and financial support and the synergies derived from the promoter's extensive experience in the potato snacks industry, and the company's reputed clientele. The ratings also factor in the healthy growth in its operating income (OI) in FY2019 and the improvement in the net worth. Further, the ratings also consider the proximity of the processing unit to the major potato-growing regions of Gujarat and Punjab and the entry barriers in the French fries industry in the form of potato seed availability, certifications etc, which limit competition to a large extent.

The ratings are, however, constrained by the moderate financial risk profile, characterised by the decline in operating margin and the high working capital intensity. The ratings are further constrained by the proposed debt-funded capex, which will expose the company to project-related risk and likely keep the capital structure and debt coverage indicators moderate over the near to medium term, till the commensurate returns start to flow. The operations and profitability remain vulnerable to agro-climatic and regulatory risks, which may adversely affect the availability and price of potatoes (major raw material). ICRA notes and will continue to monitor the impact of COVID-19 and other aligned regulatory restrictions and their impact on the company's operations in case of prolongation of existing conditions.

The Stable outlook on the [ICRA]BBB rating reflects ICRA's opinion that Iscon Balaji Foods Pvt. Ltd. (IBFPL) will continue to benefit from the extensive experience of its promoters and their financial support.

Key rating drivers

Credit strengths

Experience of promoter group in potato-related business provides operational and financial support - IBF is owned and managed by the promoters of JP Iscon Ltd. (popularly known as Iscon Group in real estate), Balaji Wafers Pvt. Ltd. (BWPL) (represented by the Virani family) and Mr. Neel Kotak and his family members. BWPL has an established presence in the potato wafers and aligned snacks business; hence, IBF was incorporated to leverage on BWPL's expertise to venture into potato-based products, namely potato flakes, frozen French fries and other ready-to-fry snacks. The company also benefits in terms of operational and financial support from the promoter group.

Reputed clientele - IBF's customer profile consists reputed customers, such as BWPL, Haldiram Foods Pvt. Ltd., Haldiram Snacks Pvt. Ltd., Bikaji Foods International Ltd., McCain India Food Pvt. Ltd., ITC Ltd. etc. The company does not have any long-term supply contracts with any of its customers. The export sales constitute a meagre portion of the sales though it increased in FY2019 and formed 7% of the total sales, up from 3% in FY2018. Diversification into french fries and other ready-to-fry frozen items segments along with increase in exports has reduced the customer concentration risk as the top-five customers now contribute 46% in FY2019 vis-a-vis 51% in FY2018.

Location-specific advantage - The company manufacturing facilities are based in Gujarat and Punjab, areas with high potato acreage and quality crop, which provides easy access to quality raw material and contract-farmed potatoes from local farmers. Also, the company benefits in terms of infrastructure and logistics, such as established cold storage, adequate power availability, lower transportation cost, and accessibility to ports for exports. The recently set up flakes manufacturing plant in Punjab also benefits in terms of cheaper procurement of potatoes and geographical diversification in for flakes segment.

Entry barriers in French fries segment - French fries manufacturing requires a specific type of potato, which is germinated from European seeds. There are criticalities/restrictions involved in terms of acquisition of seed, time required to develop potato from the seeds, contract farming and capex for setting up of plant and cold supply chain. Further, as a provider of processed food, a company requires various certifications (ISO, FSSAI, Agricultural and Processed Food Products Export Development Authority (APEDA), Hazard Analysis and Critical Control Points (HACCP), Halal certification etc) and stringent audits from clients. All these act as barriers for new entrants in the French fries manufacturing segment.

Credit challenges

Moderate financial risk profile - The company's revenue grew by healthy 77% in FY2019 to Rs.155.2 crore from Rs. 87.5 crore in FY2018, backed by healthy demand of potato flakes and scale up in the French fries coupled with commissioning of the frozen food unit. The growth was also supported by periodical increase in realisation, following the increase in the raw material prices. However, the operating profitability declined to 16.4% in FY2019 from 23.9% in FY2018, because of higher raw material cost and high fixed overheads due to partial utilisation of the installed capacity. In line with the decline in the operating margins, the net margins also declined to 8.3% in FY2019 from 12.1% in FY2018. IBF's return indicators continue to be moderate, with RoCE of 14.9% in FY2019 (vis-à-vis 15.6% in FY2018). The net worth of the company increased to Rs. 69.0 crore as on March 31, 2019 from Rs. 39.9 crore as on March 31, 2018 due to conversion of FCCDs and unsecured loan to share capital and subsidy capitalisation of Rs. 7.5 crore along with accretions to reserves. This increase in net worth improved the capital structure, with a gearing of 1.6 times as on March 31, 2019 vis-à-vis 2.2 times as on March 31, 2018. However, with the upcoming capex and therefore debt, it is expected to remain moderate in the coming year. The coverage indicators continue to be moderate, as reflected by DSCR of 1.1 times in FY2019 (vis-à-vis 1.4 time in FY2018), TD/OPBDITA of 4.3 times in FY2019 (vis-a-vis 4.4 times in FY2018), TOL/TNW of 2.5 times in FY2019 (vis-a-vis 2.9 times in FY2018) and NCA/TD of 16% in FY2019 (vis-a-vis 15% in FY2018).

Risk associated with debt-funded capex and subsequent ramp-up of operations - The company plans to expand its Ludhiana (Punjab) based flakes and Limbasi (Gujarat) based French fries manufacturing capacity at a cumulative capex of Rs. 72.9 crore during FY2020-21. The French fries unit capacity will be increased to 60,000 MTPA from 12,000 MTPA, while the flakes unit will be increased to 10,000 MTPA from 5,000 MTPA. Although the capex is expected to support the revenue growth going forward, it will expose the company to risks related to timely project completion within the budgeted cost and the subsequent ramp-up as per the expected operating parameters.

High working capital intensity - The main raw material for manufacturing fries and flakes is potato. Since potato season generally ends in April, the company is required to start stocking potatoes from February to meet the requirement for the entire year, leading to high inventory. Accordingly, working capital requirement remains high during the financial year ends. The working capital intensity stood at 42% in FY2019.

Vulnerability of operations and profitability to raw material prices, agro-climatic risks and other regulatory risks- The business operations and profitability remain exposed to the adequate availability of quality potato (the major raw material) at good prices; hence, the company is exposed to agro-climatic risks and seasonality associated with it. Further, with the outbreak of COVID-19 and other aligned regulatory concerns, prolonged existing condition may impact the company's operations in the near term.

Liquidity position: Adequate

The liquidity position of the company remains adequate as cash accruals are expected to remain sufficient to meet the repayment obligations and capex funding (partially funded through term loan). Also, cushion in the working capital limit and the financial support from the promoter group in case of any requirements provides comfort.

Rating sensitivities

Positive triggers – The company's ability to scale up operations through timely implementation and stabilisation of the envisaged capex in the flakes and fries segment within the budgeted cost, leading to improvement in scale and profitability and higher-than-expected accruals. This along with improvement in liquidity will be the key for a higher rating. The specific indicators that may lead to a rating upgrade includes TD/OPBDITA of <2.5 times on a sustained basis.

Negative triggers – Decline in sales, leading to lower-than-expected profitability and cash accruals in view of significant debt repayments. Also, any deterioration in capital structure due to higher-then-expected debt-funded capex or increase in working capital may adversely affect the ratings. The specific indicators that may lead to a rating downgrade may include TD/OPBDITA of more than 3.2 times on a sustained basis.

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 statement of the issuer.

About the company

Incorporated in January 2012, Iscon Balaji Foods Private Limited is jointly owned by the promoters of JP Iscon Ltd. (Mr. Jayesh Kotak), Balaji Wafers Pvt Ltd (Mr. Pranay Virani) and Mr. Neel Kotak and his family. It is managed by Mr. Neel Kotak, an IIT Bombay alumnus. It produces dehydrated potato flakes and ready-to-fry snacks (French fries and other products). The company has two potato flakes units in Kheda, Gujarat with a manufacturing capacity of 7,000 MTPA. It also has a recently established unit in Ludhiana in Punjab, with an installed capacity of 5000 MTPA. The French fries facility is located in Limbasi district (Gujarat) with a manufacturing capacity of 12,000 MTPA apart from ready-to-fry snacks, such as aloo patty, wedges and potato shots with an installed capacity of 3,000 MTPA.

In FY2019, the company reported a net profit of Rs. 12.9 crore on an operating income of Rs. 155.2 crore compared to a net profit of Rs. 10.6 crore on an operating income of Rs. 87.5 crore in FY2018.

Key financial indicators (audited)

	FY2018	FY2019
Operating Income (Rs. crore)	87.5	155.2
PAT (Rs. crore)	10.6	12.9
OPBDIT/OI (%)	23.9%	16.4%
RoCE (%)	15.6%	14.9%
Total Outside Liabilities/Tangible Net Worth (times)	2.9	2.5
Total Debt/OPBDIT (times)	4.4	4.3
Interest Coverage (times)	3.8	4.9
DSCR (times)	1.4	1.1

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2020)				Rating History for the Past 3 Years		
		Type	Amount Rated	Amount Outstanding	Ratings	FY2019	FY2018	FY2017
					31-Mar-2020	30-Nov-2018	24-May-2017	31-Mar-2017
1	Term Loan	Long Term	52.98	29.91*	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB(Stable)
2	WCDL	Long Term	89.95	NA	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB(Stable)
3	Cash Credit - Sublimit to WCDL/CC/EPC	Long/ short Term	(45.00)	NA	[ICRA]BBB (Stable)/A 3+	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB(Stable)
4	Capex LC - Sublimit to Term Loan	Long/ Short Term	(19.98)	NA	[ICRA]BBB (Stable)/[ICRA]A3+	[ICRA]BBB (Stable)/[ICRA]A3+	[ICRA]BBB (Stable)/[ICRA]A3+	[ICRA]BBB(Stable)/ [ICRA]A3+
5	Non-fund based limits	Short Term	8.70	NA	[ICRA]A3+	[ICRA]A3+	[ICRA]A3+	[ICRA]A3+
6	Forex Exposure	Short Term	1.33	NA	[ICRA]A3+	[ICRA]A3+	[ICRA]A3+	[ICRA]A3+
7	Unallocated Limits	Long/ Short Term	0.00	NA	[ICRA]BBB (Stable)/ [ICRA]A3+	[ICRA]BBB (Stable)/ [ICRA]A3+	[ICRA]BBB (Stable)/ [ICRA]A3+	[ICRA]BBB(Stable)/ [ICRA]A3+

Amount in Rs. crore , as on March 31, 2019

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 click here

Annexure-1: Instrument Details

ISIN o	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loan	NA	NA	NA	33.00	[ICRA]BBB(Stable)
NA	Term Loan	FY2020	NA	FY2025	5.56	[ICRA]BBB(Stable)
NA	Term Loan	FY2020	NA	FY2025	6.75	[ICRA]BBB(Stable)
NA	Term Loan	FY2020	NA	FY2025	7.68	[ICRA]BBB(Stable)
NA	WCDL	NA	NA	NA	89.95	[ICRA]BBB(Stable)
NA	Cash Credit - Sublimit to WCDL/CC/EPC	NA	NA	NA	(45.00)	[ICRA]BBB(Stable)/ [ICRA]A3+
NA	Capex LC -Sublimit to Term Loan	NA	NA	NA	(19.98)	[ICRA]BBB(Stable)/[ICRA]A3+
NA	Non-fund based limits	NA	NA	NA	8.70	[ICRA]A3+
NA	Forex Exposure	NA	NA	NA	1.33	[ICRA]A3+
NA	Unallocated Limits	NA	NA	NA	0.00	[ICRA]BBB(Stable)/[ICRA]A3+

Source: Iscon Balaji Foods Pvt. Ltd.

Annexure-2: List of entities considered for consolidated analysis- Not applicable

Corrigendum

Document dated March 31, 2020 has been corrected with revision as detailed below –

In the Rating history table (page 5), the date for the current ratings have been revised to March 31, 2020.”

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About ICRA Limited:

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