

October 06, 2021

Jain Farm Fresh Foods Limited: Ratings downgraded to [ICRA]D / [ICRA]D and simultaneously upgraded to [ICRA]B / [ICRA]A4; ratings removed from issuer not co-operating category; stable outlook assigned

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based Term Loan	150.00	191.98	Downgraded to [ICRA]D from [ICRA]C and simultaneously upgraded to [ICRA]B; stable outlook assigned; removed from ISSUER NOT COOPERATING category
Fund-based CC/ WCDL	285.00	345.00	Downgraded to [ICRA]D from [ICRA]C and simultaneously upgraded to [ICRA]B; stable outlook assigned; removed from ISSUER NOT COOPERATING category
Non-fund based – BG/LC	255.00	93.20	Downgraded to [ICRA]D from [ICRA]A4 and simultaneously upgraded to [ICRA]A4; removed from ISSUER NOT COOPERATING category
Unallocated limits	50.00	-	-
Unallocated limits	40.00	-	-
Unallocated limits	-	149.82	Downgraded to [ICRA]D / [ICRA]D from [ICRA]A4 and simultaneously upgraded to [ICRA]B / [ICRA]A4; stable outlook assigned removed from ISSUER NOT COOPERATING category
Total	780.00	780.00	

*Instrument details are provided in Annexure-1

Rationale

The revision in the long-term and short-term ratings to [ICRA]D (pronounced ICRA D) factors the reported delay in debt servicing by Jain Farm Fresh Foods Limited (JFFFL) on its term loan obligations that were due on September 01, 2020, as highlighted in the audited annual report for FY2021. The company availed the moratorium from March 1 to August 31, 2020 from its lenders, as per the COVID-19 Regulatory Package announced by the Reserve Bank of India (RBI). With the introduction of RBI's circular dated August 06, 2020 on Resolution Framework for Covid-19 related stress, the company started discussions with the lenders in August 2020 for seeking relief and one - time resolution (OTR) of its debt, since it was significantly impacted by COVID-19. Subsequently, on October 22, 2020, it formally requested the lenders for OTR. The resolution proposal was invoked by the lender on November 26, 2020 (referred as cut-off date or COD) and the resolution plan (RP) was successfully implemented on May 24, 2021. The upgrade in the long-term and short-term ratings factors in the company's regular debt servicing track record of more than 90 days post implementation of RP.

The ratings, however, consider the significant deterioration in the company's debt protection metrics in the last two fiscals because of a decline in revenues and profitability, which impacted its liquidity and debt servicing ability during this period. The ratings also factor in the weak credit profile of the parent, Jain Irrigation Systems Limited (JISL), which has continued to delay on its debt servicing from October 2019 because of its stretched liquidity position and is currently in discussion for finalisation and implementation of a debt resolution plan. Further, the ratings continue to be constrained by the exposure of the

company's profitability to fluctuations in foreign exchange rates, given the significant share of exports in JFFFL's standalone revenues, and susceptibility of its operations to agro-climatic risks and seasonality, which impact the availability of raw materials, i.e. fresh fruits and vegetables.

The ratings, however, continue to favourably take into account JFFFL's established and leading position in the mango pulp and onion dehydration markets, its wide distribution and procurement network, and its geographically diversified business with established relations with several reputed domestic and international clients which leads repeat business. Also, the implementation of RP by the lenders with lowering of interest rates, the elongation of repayment schedule for term loans and the conversion of interest accrued during the moratorium period into funded interest loans are expected to support the company to improve its coverage metrics. The ability of the company to improve its scale of operations and profitability remains key to achieve a sustainable improvement in its financial profile.

The Stable outlook on the [ICRA]B rating reflects ICRA's expectation that the company will benefit from the favourable terms of the approved resolution plan in terms of reduced interest rate and deferred repayment schedule, and will be able to report adequate revenue growth and profitability on the back of revival in demand from key markets and its established client base.

The removal of the ratings from the issuer not co-operating category follows the co-operation by the company for the rating exercise.

Key rating drivers and their description

Credit strengths

Regular debt servicing post successful implementation of resolution plan in May 2021 – The company has demonstrated regular debt servicing track record of more than the 90-days, with no delays in debt servicing since implementation of RP on May 24, 2021, as confirmed by the lenders.

Established market presence in domestic vegetable dehydration and mango pulp industry – The company has a well-established position in the domestic food processing market, with a sizeable contribution from exports as well. It has been in the business for about 25 years, earlier through JISL, who subsequently sold off the business to JFFFL in March 2016. The company has also grown its international presence through multiple acquisitions over the years in the USA, UK, and Belgium. JFFFL has a widespread distribution network spanning various urban and semi-urban regions. It has a vast procurement network, further strengthened by its well-established relationship with farmers in Maharashtra, Andhra Pradesh, and Tamil Nadu.

Diversified geographical presence; reputed domestic and international clientele – The company derives approximately half of its standalone revenues through exports, mainly to Iran, Saudi Arabia, Netherlands, Belgium which mitigates geographical concentration risks. The long-term demand outlook for fruit beverages and processed foods market, especially in emerging markets, is favourable and is expected to support the company's revenue growth. Moreover, the company has a strong client base comprising several reputed domestic and international FMCG players. Hindustan Coca-Cola Beverages Private Limited, one of JFFFL's key domestic clients, has been dealing with the company for over 15 years and contributes to approximately 25 to 30% of the company's total standalone revenues.

Credit challenges

Weak financial profile reflected by weak capitalisation and debt coverage indicators; instance of past delays in debt servicing – JFFFL's financial profile has been severely impacted in the last two fiscal because of sharp decline in operating profitability and heavy net losses. The company's capitalisation and debt protection metrics have witnessed sharp deterioration as evident

from consolidated Total Debt/ OPDITA of over 42 times and interest coverage of below 1 time in FY2021. Given the liquidity stress, there were a few instances of irregularities in debt servicing during FY2021. Nonetheless, the implementation of RP by the lenders with lowering of interest rates, elongation of repayment schedule for term loans and conversion of interest accrued during the moratorium period into funded interest loans are expected to support the company to improve its coverage metrics. The ability of the company to improve its scale of operations and profitability remains key to achieve a sustainable improvement in its financial profile.

Weak credit profile of parent, JISL – The liquidity position of JISL remains stretched because of delays in realisation of receivables from its micro-irrigation segment. The company has continued to delay on its debt servicing from October 2019 and is currently engaged with its lenders on a resolution plan. The lending consortium of JISL signed an inter-creditor agreement in June 2019 as per which the company's debt resolution plan is expected to be finalised and implemented in the near term.

Operations exposed to agro-climactic risks and seasonality - The company's operations require fresh fruits and vegetables, the production of which is exposed to agro-climactic risks and is seasonal in nature. The quality of crop of the fruits and vegetables has a direct impact on the availability and prices of the raw materials and, in turn, on the company's profitability.

Intense competition from international players in onion dehydration business – Approximately 75-80% of JFFFL's sales from the onion dehydration business are exports. The company faces stiff competition from other producers of dehydrated onion and garlic in the international market.

Exposure to fluctuations in foreign exchange rates – The company is exposed to volatility in forex rates given the high share of exports. While the company does not follow a firm hedging policy, it tries to mitigate the risk by hedging about 40% of its exports and part of its future foreign currency cash flows on inventory.

Liquidity position: Stretched

The company's liquidity profile is **stretched**. The improvement in liquidity will be contingent on the company's ability to scale up in a profitable manner and improve its cash flows with tight control over its working capital cycle. The reduced debt servicing requirements for FY2022 as per the approved resolution plan are expected to provide some support to the company's liquidity position.

Rating sensitivities

Positive factors – The ratings could be upgraded if the company is able to demonstrate significant scale up in revenues and profitability, leading to improvement in liquidity position. Further, notable improvement in working capital indicators and/or improvement in the credit profile of parent, JISL, could also trigger a rating upgrade.

Negative factors – Negative pressure on ratings could emerge if the company is not able to scale up its revenues while maintaining adequate profitability. Any significant increase in JFFFL's consolidated debt or worsening of its liquidity profile or any cash outflows towards JISL that impact JFFFL's own liquidity could also lead to a rating downgrade.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not applicable
Consolidation/Standalone	Consolidated For arriving at the ratings, ICRA has considered the consolidated financials of JFFFL. The entities considered for consolidation are enlisted in Annexure-2

About the company

Incorporated in 2015, Jain Farm Fresh Foods Limited (JFFFL) is a subsidiary of Jain Irrigation Systems Limited (JISL). The company was formed as a result of the sale of the food processing business (previously being undertaken under JISL itself since 1995) with effect from March 31, 2016 on slump sale basis as a going concern. It is a food processing company involved in the production of dehydrated onion and vegetable products. It also produces aseptic fruit purees, concentrates, clarified juices, and frozen products. These products are marketed under the brand name 'Jain FarmFresh'. In 2017, the company launched its retail business with its first branded product called "Aamrus" (sweetened frozen mango pulp) under the umbrella brand name of "FarmFresh". Later, the company added a new brand "FRU2go" (fruit pulp in various variants). In 2018, the company ventured into spice manufacturing and launched its spice retail operations across India.

Key financial indicators

Parameter	Standalone		Consolidated	
	FY2020 (Audited)	FY2021 (Audited)	FY2020 (Audited)	FY2021 (Audited)
Operating Income (Rs. crore)	761.65	428.68	1640.70	1195.15
PAT (Rs. crore)	-70.65	-115.03	-81.62	-92.28
OPBDIT/OI (%)	1.96%	-0.66%	3.62%	2.31%
PAT/OI (%)	-9.28%	-26.83%	-4.97%	-7.72%
Total Outside Liabilities/Tangible Net Worth (times)	1.21	1.41	2.02	1.86
Total Debt/OPBDIT (times)	46.90	-257.07	24.91	42.86
Interest Coverage (times)	0.16	-0.03	0.51	0.21

*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

SN	Instrument	Current Rating (FY2022)			Chronology of Rating History for the past 3 years						
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore) as on Jun30,2021	Date & Rating in FY2022	Date & Rating in FY2021		Date & Rating in FY2020			Date & Rating in FY2019
					06-Oct-2021*	3-Nov-2020	17-Jul-2020	27-Feb-2020	05-Nov-2019	28-Jun-2019	31-Jan-2019
1	Fund based – Term Loan	Long Term	191.98	191.98	[ICRA]B (Stable)	[ICRA]C; ISSUER NOT COOPERATING	[ICRA]C	[ICRA]C	[ICRA]BB+ (Negative)	[ICRA]BBB (Negative)	[ICRA]BBB+ (Stable)
2	Fund based – CC/ WCDL	Long Term	345.00		[ICRA]B (Stable)	[ICRA]C; ISSUER NOT COOPERATING	[ICRA]C	[ICRA]C	[ICRA]BB+ (Negative)	[ICRA]BBB (Negative)	[ICRA]BBB+ (Stable)
3	Non-fund based – BG/LC	Short Term	93.20		[ICRA]A4	[ICRA]A4; ISSUER NOT COOPERATING	[ICRA]A4	[ICRA]A4	[ICRA]A4+	[ICRA]A3+	[ICRA]A2
4	Unallocated limits	Long Term	-		-	[ICRA]C; ISSUER NOT COOPERATING	[ICRA]C	[ICRA]C	[ICRA]BB+ (Negative)	[ICRA]BBB (Negative)	[ICRA]BBB+ (Stable)
5	Unallocated limits	Short Term	-		-	[ICRA]A4; ISSUER NOT COOPERATING	[ICRA]A4	[ICRA]A4	[ICRA]A4+	[ICRA]A3+	[ICRA]A2
6	Unallocated limits	Long term / short term	149.82		[ICRA]B (Stable)/ [ICRA]A4	-	-				

* Ratings removed from ISSUER NOT COOPERATING category

Complexity level of the rated instrument

Instrument	Complexity Indicator
Fund based – Term Loan	Simple
Fund based – CC/ WCDL	Simple
Non-fund based – BG/LC	Very simple
Unallocated	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 analyzing 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, is available on ICRA's 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	Fund based – Term Loan	FY2022		FY 2027	191.98	[ICRA]B (Stable)
NA	Fund based – CC/ WCDL				345.00	[ICRA]B (Stable)
NA	Non-fund based – BG/LC				93.20	[ICRA]A4
NA	Unallocated				149.82	[ICRA]B (Stable)/ [ICRA]A4

Source: Jain Farm Fresh Foods Limited

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Jain International Foods Limited	100.00%	Full consolidation
Sleaford Food Group Limited	100.00%	Full consolidation
Sleaford Quality Foods Limited	100.00%	Full consolidation
Arnolds Quick Dried Foods Limited	100.00%	Full consolidation
Jain America Foods Inc	100.00%	Full consolidation
Jain Irrigation Holding Inc	100.00%	Full consolidation
Jain Farm Fresh Food Inc.	100.00%	Full consolidation
Jain Farm Fresh Holdings SPRL	100.00%	Full consolidation
Innovatrading BVBA	100.00%	Full consolidation
Innovafood N.V.	100.00%	Full consolidation
JIO	100.00%	Full consolidation

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