

January 11, 2024

Edward Food Research and Analysis Centre Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term – Non-convertible debenture	36.00	36.00	[ICRA]B- (Stable); reaffirmed
Total	36.00	36.00	

*Instrument details are provided in Annexure-I

Rationale

The reaffirmation of Edward Food Research and Analysis Centre Limited's (EFRAC) rating factors in the weak financial risk profile of the company, characterised by an adverse capital structure with a negative net worth position and sizeable debt along with poor liquidity. The company's high debt servicing obligations compared to the cash accruals continue to keep its financial profile under pressure, however, the redemption of non-convertible debenture (NCD), which was due on September 30, 2023, has been deferred to April 1, 2024. EFRAC's scale of operations remains modest, notwithstanding the growth witnessed over the last two fiscals. In FY2023, its operating income (OI) grew by 17%, aided by an increase in revenues from the food and food products and environmental segments by 19% and 56%, respectively and bad debt recovery of Rs. 1.08 crore, despite a decline in revenue from the drugs and cosmetics segment by 6%. This along with a decline in raw material costs led to a turnaround in EFRAC's performance, as reflected by an increase in its OPBDITA to Rs. 12.0 crore in FY2023 from Rs. 8.3 crore in FY2022 and a net profit posted in FY2023 vis-à-vis net losses reported in the preceding years. The company posted a cash profit in FY2023 for the first time since FY2015. However, the company's revenue and profits deteriorated in H1 FY2024 on a YoY basis on the back of a significant contraction in revenue from the drugs and cosmetics segment.

The rating, however, favourably factors in the established track record of EFRAC in the industrial testing industry. The rating also derives comfort from the reputed client base of EFRAC and the receipt of accreditations/certifications from major approving agencies, which support its business profile.

The Stable outlook on the [ICRA]B- rating reflects ICRA's opinion that EFRAC's established presence in the industrial testing industry is likely to support its revenue.

Key rating drivers and their description

Credit strengths

Established track record of the company in the industrial testing industry – The company is involved in industrial testing of food and food products, drugs, cosmetics and in environmental testing. EFRAC has an established track record of more than a decade in the industry, particularly in the eastern and north-eastern India, strengthening its business profile.

Accreditation from major approving agencies and reputed clientele strengthen operating profile – EFRAC's testing and research laboratory for food and food products, drugs and cosmetics, and environment are accredited by major approving agencies such as USFDA, FSSAI, NABL, BIS and MOEF etc., which act as a natural barrier to potential new entrants in the industry. ICRA notes that EFRAC's customer base includes reputed entities both in the government and private sectors, reflecting the credibility of its analysis, which supports its business profile.

Credit challenges

Weak financial profile characterised by an adverse capital structure and poor liquidity – EFRAC's net worth gradually eroded due to losses suffered by the company over the years and stood at negative Rs. 15.17 crore as on September 30, 2023 (unaudited). This along with a sizeable amount of NCD outstanding (Rs. 48.26 crore including accrued interest as on September 30, 2023) kept the capital structure adverse. The company's poor liquidity position with a modest cash accrual and sizeable debt service obligation also kept EFRAC's financial profile weak.

Significant debt servicing obligations vis-à-vis cash accruals; high coupon rate on NCD – The NCD of Rs. 48.26 crore (including accrued interest) is held by Mandala Food Co-Investment I Ltd., a part of the Mandala Group, which holds a 51% equity stake in EFRAC. The NCD carries a high coupon rate of 18%, leading to a sizeable interest outgo on a yearly basis. The NCD redemption is due on April 1, 2024 (deferred from September 30, 2023). However, the company's net cash accrual remained modest at ~Rs. 4.5 crore in FY2023, notwithstanding an improvement from a negative cash accrual in the preceding years. Hence, the debt coverage metrics remained subdued, as reflected by the interest coverage of 1.4 times (0.9 times in FY2022) and the total debt relative to OPBDITA of 4.1 times (6.0 times in FY2022) in FY2023.

Relatively smaller scale of operations – EFRAC's OI grew significantly over the last two fiscals to Rs. 28.7 crore in FY2023, registering a YoY growth of 45% and 17% in FY2022 and FY2023, respectively. However, the company's scale of operations remains small compared to other established players in the industrial testing business.

Liquidity position: Poor

The liquidity position of the company is poor, with high debt service obligations. The redemption of NCD of Rs. 48.26 crore (including accrued interest) is due on April 1, 2024 (deferred from September 30, 2023). Besides, a high coupon rate (18%) on the NCD exerts pressure on the company's cash flows. EFRAC's cash flow from operations stood at Rs. 0.9 crore only in FY2023 due to low absolute profit and high interest outgo. No material improvement in the same is likely in the near-to-medium term unless the interest obligation subsides. The company has a moderate level of free cash (Rs. 4.6 crore as on March 31, 2023). It is likely to incur an annual capex of around Rs. 5 crore in the coming few years for replacement of old equipment and infrastructure expansion, which would be funded through internal accruals.

Rating sensitivities

Positive factors – ICRA may upgrade EFRAC's rating if the company's net worth and liquidity position improve significantly on a sustained basis.

Negative factors – Pressure on EFRAC's rating may arise if it is unable to make financial arrangements in advance to honour the upcoming NCD redemption.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Not applicable
Consolidation/Standalone	The rating is based on the standalone financials of EFRAC.

About the company

Edward Food Research and Analysis Centre Limited (EFRAC) was established in August 1921. Mandala Food Co-Investments II Ltd. and Mandala Litmus SPV, based out of Mauritius, made an equity investment in FY2017, post which, the Mandala Group holds an equity stake of 51% in EFRAC. One of the Mandala Group entities (Mandala Food Co-Investments I Ltd.) also invested in EFRAC through NCD. The company operates a testing and research laboratory for food and food products, drugs and cosmetics, and environment at Subhash Nagar in North 24 Parganas district, West Bengal.

Key financial indicators (audited)

EFRAC (Standalone)	FY2022	FY2023	H1 FY2024 (unaudited)
Operating income	24.6	28.7	13.0
PAT	-3.9	0.9	-0.5
OPBDIT/OI	33.6%	41.9%	37.6%
PAT/OI	-16.0%	3.1%	-3.5%
Total outside liabilities/Tangible net worth (times)	-3.5	-3.7	-3.5
Total debt/OPBDIT (times)	6.0	4.1	5.1
Interest coverage (times)	0.9	1.4	1.1

Source: Company, ICRA Research; 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

Instrument	Type	Current rating (FY2024)			Chronology of rating history for the past 3 years				
		Amount rated (Rs. crore)	Amount outstanding as of Sep 30, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022		Date & rating in FY2021	
				Jan 11, 2024	Jan 12, 2023	Mar 21, 2022	Apr 07, 2021	Apr 06, 2020	
1 Non-Convertible Debenture	Long term	36.0	48.26*	[ICRA]B-(Stable)	[ICRA]B-(Stable)	[ICRA]B-(Stable)	[ICRA]C+	[ICRA]C+	

*Including accrued interest

Complexity level of the rated instruments

Instrument	Complexity Indicator
Non-Convertible Debenture	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 (Rs. crore)	Current Rating and Outlook
INE008V07034	Non-Convertible Debenture	June 2016	18.00%	April 1, 2024	36.00	[ICRA]B- (Stable)

Source: Company

Annexure II: List of entities considered for consolidated analysis: Not applicable

ANALYST CONTACTS

Jayanta Roy

+91 33 7150 1120

jayanta@icraindia.com

Sujoy Saha

+91 33 7150 1184

sujoy.saha@icraindia.com

Sovanlal Biswas

+91 33 7150 1181

sovanlal.biswas@icraindia.com

Priyesh Ruparelia

+91 022 6169 3328

priyesh.ruparelia@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar

+91 22 6114 3406

shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani

Tel: +91 124 4545 860

communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

ICRA Limited



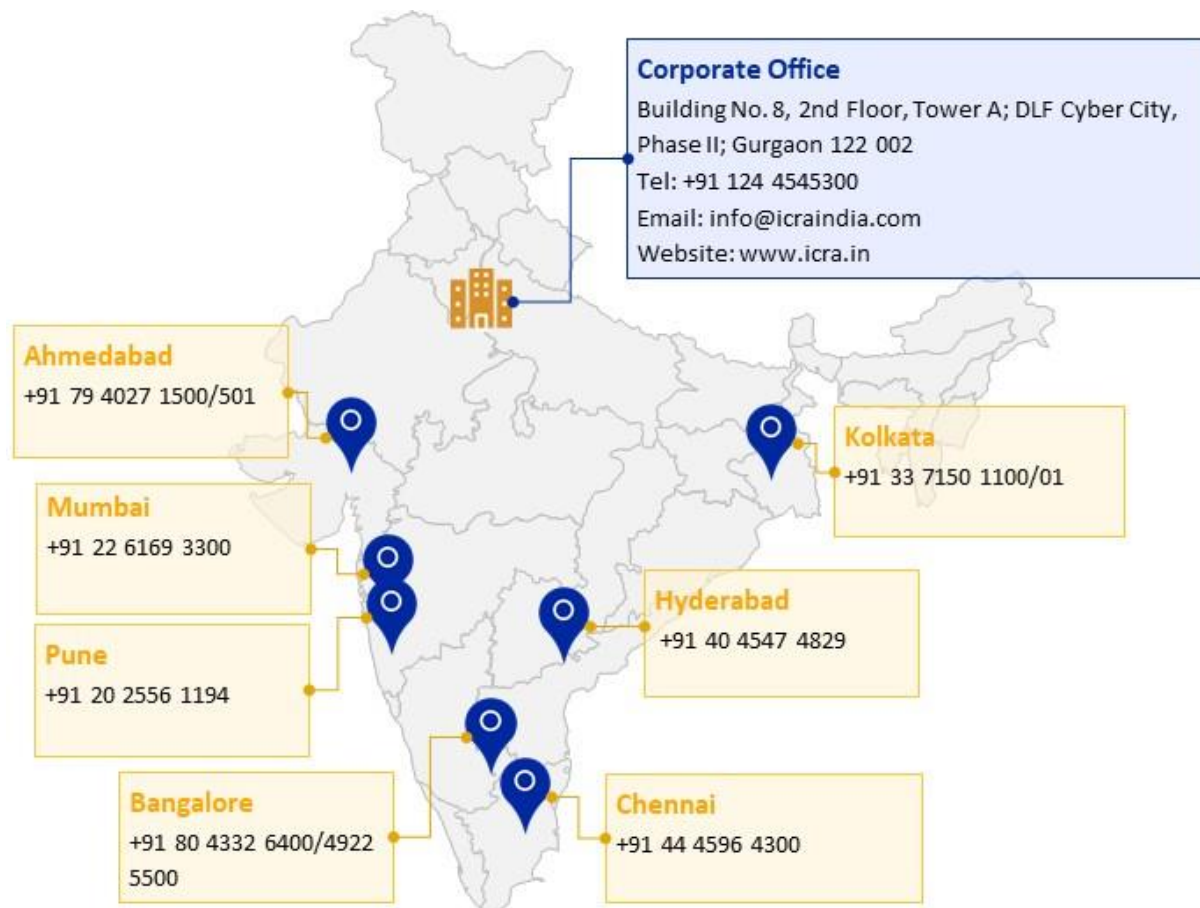
Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001

Tel: +91 11 23357940-45



Branches



© Copyright, 2024 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.