January 18, 2024

Spectra Foods and Beverages Pvt. Ltd.: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term – Fund Based – Cash Credit	5.00	5.00	[ICRA]BBB (Stable); reaffirmed
Long Term – Fund Based – Term Loan	5.17	0.00	-
Long Term – Unallocated	0.10	5.27	[ICRA]BBB (Stable); reaffirmed
Total	**10.27**	**10.27**	

**Instrument details are provided in Annexure-I*

Rationale

The rating reaffirmation continues to factor in the extensive track record of Spectra Foods and Beverages Pvt. Ltd. (SFBPL) as a contract manufacturer for Kwality Walls' ice cream, which is owned by Hindustan Unilever Limited (HUL), for the past 25 years. SFBPL has a comfortable financial risk profile with a gearing of 0.3 times, an interest coverage of 8.7 times and Debt/OPBDITA of 1.1 times as on March 31, 2023. The rating considers the low working capital intensity of business owing to timely receipt of payments from HUL, along with low inventory levels maintained by the company on account of the perishable nature of the product.

However, the rating is constrained by SFBPL's modest scale of operations with revenues of Rs. 108.2 crore in FY2023, though the same is expected to increase in FY2024. Moreover, the company's net worth remains low, which stood at Rs. 25.5 crore as on March 31, 2023. The rating also considers the high business concentration risk with dependence on a single customer (HUL) as it is the dedicated contract manufacturer of Kwality Walls brand ice creams. Continuation of agreement with HUL would be critical for sustaining operations, which remains a key rating monitorable. Nevertheless, the agreement with HUL has been renewed for the past 25 years, which mitigates the revenue concentration risk to an extent. The company is also exposed to risks associated with quality-relates issues, which could adversely impact the company's reputation and business.

The Stable outlook on the [ICRA]BBB rating reflects ICRA's opinion that SFBPL will continue to benefit from the extensive experience of its promoters in the ice cream manufacturing industry and established business relationships with HUL, which will continue to support a steady revenue growth and stable profitability.

Key rating drivers and their description

Credit strengths

Established position as one of the main contract manufacturers for HUL since 1995 – The company commenced ice cream manufacturing in 1984 as a franchisee for Kwality in Andhra Pradesh. Subsequently in 1995, it entered into an agreement with HUL for manufacturing ice creams after HUL took over the Kwality brand. The company would continue to benefit from the established association with HUL, going forward. Further, ICRA believes that demand for ice creams will grow steadily on the back of growth in demand for processed food and the hotels, restaurants and catering (HoReCa) segment, which augurs well for the company's business growth.

Low working capital intensity – The working capital intensity of the company remains low due to timely receipt of payments from HUL, and low inventory levels owing to the perishable nature of the product. Further, most of the working capital

requirements are met by credit period from the suppliers. ICRA believes that prompt payments by HUL and comfortable credit period from the suppliers would help limit the company's working capital intensity.

Comfortable capital structure and healthy debt protection metrics – The gearing remained low at 0.3 times as on March 31, 2023, owing to low debt levels and a stable increase in its net worth. The company's debt profile as on March 31, 2023, comprised vehicle loans of Rs. 1.23 crore and unsecured loan from promoters worth Rs. 6.02 crore. The coverage indicators remained healthy with an interest coverage of 8.7 times, TD/OPBDITA of 1.1 times and NCA/TD of 84.5% in FY2023. ICRA estimates that the company would maintain healthy debt protection metrics in the future years with a steady growth in business from HUL and a stable profitability. Also, with limited capex and fresh borrowings, the capital structure is likely to remain comfortable in the near term.

Credit challenges

Modest scale of operations and low net worth base – The company's revenues improved to Rs. 108.18 crore in FY2023 from Rs. 83.55 crore in FY2022 on account of a significant increase in demand and production levels owing to resumption in business operations post relaxation of the pandemic-induced restrictions. However, in absolute value, the income and profitability of the company remain modest and are likely to remain at these levels in the near term. While the company has maintained healthy operating as well as net profit margins over the past years, given its small size of revenue and cash accruals, the net worth base has remained low at Rs. 25.5 crore as on March 31, 2023.

Exposed to revenue concentration risk – SFBPL is entirely dependent on HUL for its revenues, so continuation of relationship is critical for sustaining its operations. HUL's dependence on SFBPL is limited with other manufacturing facilities also meeting its ice cream requirements. However, successful business relationship of the company with HUL for more than two decades provides comfort.

Exposure to quality related risks – As the company is present in the food industry, its quality related risks are high, which could impact its business as well as pricing strength.

Liquidity position: Adequate

SFBPL's liquidity position is adequate with positive fund flow from operations worth more than Rs. 5.00 crore expected in the near-to-medium term and substantial buffer in its working capital limits due to low utilisation of the same (around 25% in FY2023). The company has a moderate capex plan of Rs. 5.0 crore in FY2024, which is being funded through its internal accruals and unsecured loans from the promoters (if needed). Further, it does not have any substantial repayment obligation except Rs. 0.36 crore due in FY2024, for which its cash accruals would be adequate. Also, need-based support from the promoters in the form of unsecured loans would continue to provide some comfort to its liquidity.

Rating sensitivities

Positive factors – The rating could be upgraded if there is a significant increase in the company's scale of operations while maintaining the profit margins on a sustained basis. Also, any material strengthening of the company's net worth would be a credit positive.

Negative factors – The rating could be downgraded if there is a significant decline in the company's scale of operations or a deterioration in its working capital cycle or non-renewal of agreement with HUL adversely impacting its accruals, debt protection metrics and liquidity on a sustained basis. Specific credit metrics that could lead to a downgrade of SFBPL's rating include interest coverage of less than 3.5 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 rating is based on the company's standalone financial profile.

About the company

Incorporated in September 1982 as V.B.C. Foods Private Limited, the company commenced commercial production in 1984 as a contract manufacturer of ice cream for Kwality Walls (Mumbai). Later the company was renamed as Spectra Foods and Beverages Private Ltd. (SFBPL), when it had signed a contract with HUL to manufacture and supply ice creams after the takeover of Kwality Walls by HUL in 1995. SFBPL has its manufacturing unit at Vijayawada, Andhra Pradesh, which is managed by Mr. M. Srinivas, who has over 25 years of experience in the ice cream business. The installed capacity of the facility stood at 21.9 million litres per annum.

Key financial indicators (audited)

SFBPL Standalone	FY2022	FY2023
Operating income	83.55	108.18
PAT	2.76	3.50
OPBDIT/OI	6.72%	6.30%
PAT/OI	3.30%	3.30%
Total outside liabilities/Tangible net worth (times)	1.26	1.00
Total debt/OPBDIT (times)	1.11	1.08
Interest coverage (times)	7.83	8.70

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore; Source: ICRA Research, Company data

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2024)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as of Mar 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					Jan 18, 2024	Oct 28, 2022	Nov 03, 2021	Nov 12, 2020
1	**Fund Based – Cash Credit**	Long-term	5.00	--	**[ICRA]BBB (Stable)**	**[ICRA]BBB (Stable)**	**[ICRA]BBB (Stable)**	**[ICRA]BBB- (Positive)**
2	**Fund Based – Term Loan**	Long-term	--	--	**--**	**[ICRA]BBB (Stable)**	**[ICRA]BBB (Stable)**	**[ICRA]BBB- (Positive)**
3	**Unallocated**	Long-term	5.27	--	**[ICRA]BBB (Stable)**	**[ICRA]BBB (Stable)**	**[ICRA]BBB (Stable)**	**[ICRA]BBB- (Positive)**

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long Term – Fund Based – Cash Credit	Simple
Long Term – 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 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
NA	**Long-term – Fund Based – Cash Credit**	NA	9.95%	NA	5.00	[ICRA]BBB (Stable)
NA	**Long-term – Unallocated**	NA	NA	NA	5.27	[ICRA]BBB (Stable)

Source: Company

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

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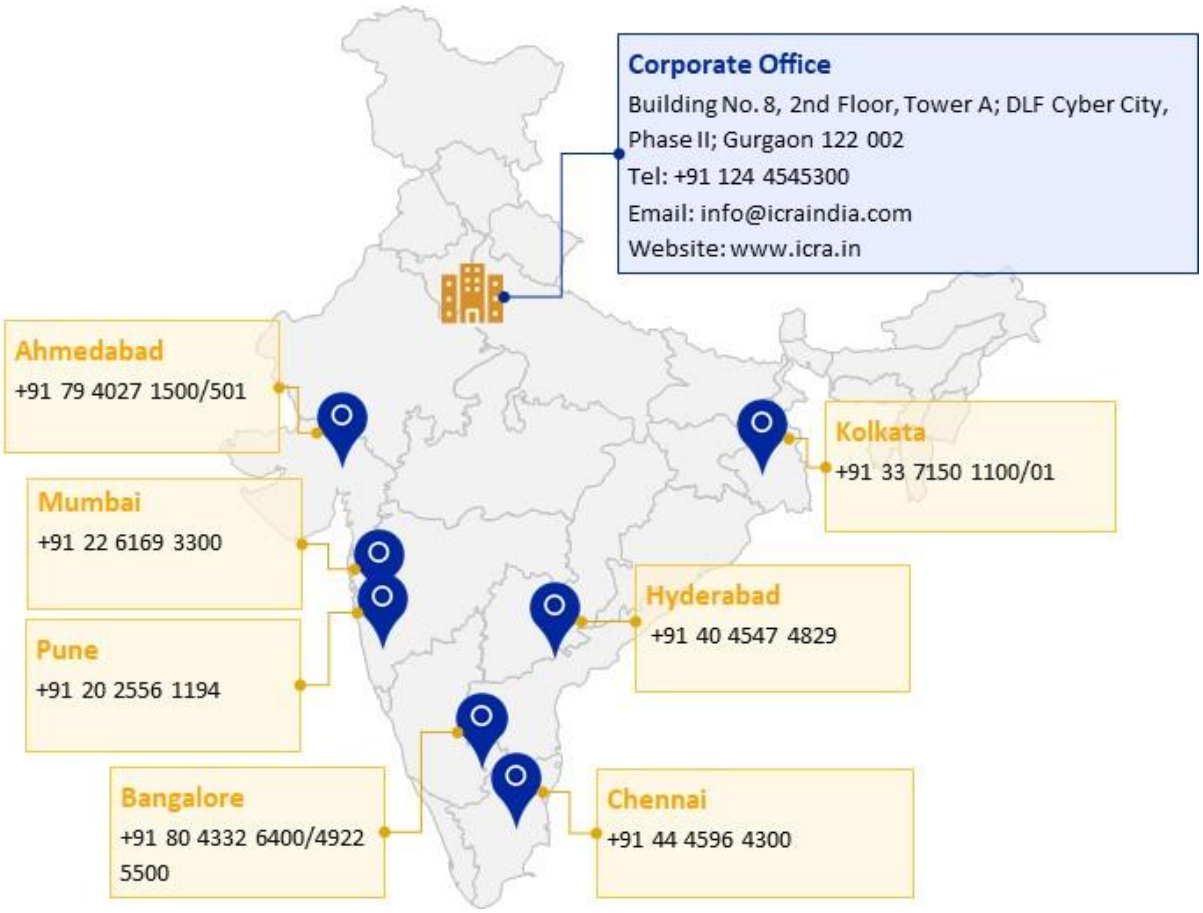

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