March 07, 2017

Unibic Foods India Private Limited
(erstwhile Unibic Biscuits India Private Limited)

Instruments*	Amount Rated (Rs. crore)	Rating Action
Long term - Fund based limits	24.50 (enhanced from 11.50)	[ICRA]BB(Stable) / reaffirmed
Short term - Non-fund based limits	0.50	[ICRA]A4 / reaffirmed
Long term / Short term - Unallocated	15.00	[ICRA]BB(Stable) / A4 / assigned

**Instrument details are provided in Annexure-1*

Rating Action

ICRA has reaffirmed the long term rating assigned to Rs. 24.50 crore[1] fund based limits of Unibic Foods India Private Limited ("UNIBIC" / "the company") at **[ICRA]BB** (pronounced ICRA double B)[2]. ICRA has reaffirmed the short-term rating assigned to Rs 0.50 crore non-fund based limits of the company at **[ICRA]A4** (pronounced ICRA A four)[†]. ICRA has also assigned ratings of **[ICRA]BB/A4** (pronounced ICRA double B / ICRA A four) to Rs. 15.00 crore unallocated limits of the company. The outlook on the long-term rating is '**Stable**'.

Rationale

The rating reaffirmation continues to be constrained by the intense competition from the established players such as Britannia, Parle and ITC – who are also present in the premium cookie segment and have wider reach – which limits UNIBIC's pricing flexibility and exposes its margins to input price fluctuations. The reaffirmation also considers UNIBIC's sizeable net-worth erosion in the past owing to continuous losses; however, comfort is derived to an extent from the company turning into profitability in FY2016. Even though the company has increased its presence across India over the last few years, it continues to derive majority of its revenues from south India leading to geographical concentration risks. ICRA also takes note of UNIBIC's planned debt-funded capital expenditure towards setting up additional manufacturing lines which may impact its financial position. This capacity addition, is however, expected to support the growth prospects of the company going forward.

The rating reaffirmation, however, takes into account the healthy revenue growth witnessed in FY 2016 and H1 FY 2017 on the back of UNIBIC's aggressive marketing initiatives, launch of new products and growing market penetration supported by an expanding distribution network across India. Supported by the revenue growth, the company turned profitable at the operating level in FY2016. The ratings also factor in the company's financial risk profile, characterized by funding support from private equity investors which has aided in maintaining favourable capital structure despite erosion of net worth owing to continuous losses in the past. The funding support, coupled with comfortable debtor, creditor and inventory position has resulted in a largely comfortable liquidity position. ICRA also takes note of increase in stake holding in the company to the extent of around 25% by Peepul Capital, the majority shareholder, in October 2016. The ratings continue to draw comfort from the long standing experience of UNIBIC's top management which has worked with players such Britannia and Tiffany in the past.

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

Key rating drivers

Credit Strengths

- Established track record of the senior management of more than two decades in the cookie/biscuits industry
- Sustained growth in top line over the last few years owing to increase in marketing activities, introduction of new flavors and strengthening of supply chain
- Low dependence on external debt financing owing to healthy equity infusions by PE investors resulting in comfortable capital structure
- Association with reputed brands such as Café Coffee Day, Indigo Airlines, Art of Living, Chai Point, Sresta and Feasters for private label products
- Increased capacity in FY2017 and planned capacity increase in FY2018 expected to support the growth prospects of the company going forward

Credit Weakness

- Stiff competition from large players such as Britannia, ITC and Parle that have wider reach and better brand recognition; susceptibility to volatility in raw material prices given limited pricing flexibility
- Moderate, albeit improving, scale of operations and low profitability; the company turned profitable at the operating level in FY2016 after having registered losses in the previous years
- Sustained losses since inception resulting in large net-worth erosion; history of funding support from PE investors that has maintained the net worth at healthy levels a positive
- Planned debt-funded capital expenditure towards setting up new manufacturing lines may impact the financial profile once undertaken

Description of key rating drivers highlighted above:

The top management of UNIBIC has around 20-25 years of experience in the industry. Mr. Nikhil Sen, the Managing Director, was formerly a COO of Britannia. Mr. Ashok Gupta, the CFO and Commercial Head, worked with Britannia for 22 years before joining UNIBIC. Similarly, Mr. VVS Mani, Director – Operations, has worked with Britannia and Tiffany in the past for more than 20 years. The Company has witnessed rapid growth in the last few years, with the operating income increasing from Rs. 74.58 crore in FY2014 to Rs. 204.56 crore in FY2016. For FY2017, UNIBIC has registered sales of Rs. 174 crore till November 2016. This growth has been achieved due to increased focus on marketing activities during the last few years (the company has roped in a brand ambassador and launched an advertising campaign in FY2017), strengthening of supply chain through addition of distributors, and diversification of customer segments. The company has a network of 23 C&F agents, 30 super stockists and 1552 distributors across the country at present. The company also manufactures cookies under private labels for players such as Café Coffee Day, Chai Point, Indigo Airlines etc. which has also helped the company to increase its revenues. Introduction of new types of cookies over the years has also contributed to the growth in revenues. For instance, Choco Ripple cookies introduced in FY2016 turned out to be a success and contributed around Rs. 25.50 crore to the total revenues during the year.

The scale of operations of the company, though improving, is moderate in comparison with that of its bigger and more established peers. Also, the company turned profitable at the operating level only in FY2016 after years of posting continuous losses and its ability to sustain the same remains to be seen. UNIBIC faces stiff competition from large players such as Britannia, ITC and Parle that have wider reach and better brand recognition owing to their established presence in the business over many years. The company has partially offset the competition by focusing more on the premium segment where the margins are better. UNIBIC is susceptible to volatility in raw material prices and has limited pricing flexibility especially when compared to its bigger competitors. While the company's plans to enhance its capacity in FY2018 primarily through debt funding might augur well for its growth prospects, it is also likely to marginally impact its financial profile.

Links to applicable Criteria
http://www.icra.in/Files/Articles/2009-October-Rating-Corp-Rating-Methodology.pdf

About the Company:
Unibic Foods India Private Limited (UNIBIC) (erstwhile Unibic Biscuits India Private Limited) was incorporated in 2004 in India and is engaged in the manufacturing of high-margin specialty cookies. UNIBIC, established as the Indian arm of Unibic Australia, was acquired under a stake sale by Lazard in 2011 and was subsequently sold to Peepul Capital LLC in 2013.

UNIBIC has its factory located in Bangalore with 4 wire-cut manufacturing lines. UNIBIC's product range includes around 20 different cookie flavors such as Chocohip, Oatmeal, Butter, Cashew, Milk and Choco Ripple. The company has a pan-India distribution network although majority of its revenue is derived from the southern part of the country. UNIBIC also manufactures cookies under private labels for Café Coffee Day, Indigo Airlines, Art of Living, Chai Point etc. The company also has the British Retailers Consortium (BRC) as well as the Hazard Analysis and Critical Control Point (HACCP) certifications.

For FY2016, the company reported a net profit of Rs. 2.53 crore on an operating income of Rs. 204.56 crore.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years:

Table: Rating History

S.No	Name of Instrument	Current Rating			Chronology of Rating History for the past 3 years		
		Type	Rated amount (Rs. Crores)	Month-year & Rating in FY2017	Month- year & Rating in FY2016	Month- year & Rating in FY2015	Month- year & Rating in FY2014
				March 2017	January 2016	September 2014	March 2014
1	Fund based	Long term	24.50	[ICRA]BB(Stable)	[ICRA]BB(Stable)	[ICRA]B+	[ICRA]B+
2	Non-fund based	Short term	0.50	[ICRA]A4	[ICRA]A4	[ICRA]A4	[ICRA]A4
3	Unallocated	Long term / Short term	15.00	[ICRA]BB(Stable) / A4	-	-	-

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

Details of Instruments

Name of the instrument	Date of issuance	Coupon rate	Maturity Date	Size of the issue (Rs. Cr)	Current Rating and Outlook
Fund based - Cash Credit	-	-	-	16.00	[ICRA]BB(Stable)
Fund based – Term Loan	August 2016	-	July 2022	8.50	[ICRA]BB(Stable)
Non-fund based – Bank Guarantee	-	-	-	0.50	[ICRA]A4
Unallocated	-	-	-	15.00	[ICRA]BB(Stable) / [ICRA]A4

Source: Unibic Foods India Private Limited

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