



## Capital Foods Limited

### RATING HISTORY

Instrument	Amount	Amount Outstanding	Rating		
	In Crore	In Crore	As on July 10	As on Jan 10	-
Fund Based Limits	15	N.A.	LBB+ (stable)	LBB+ (stable)	-
Term Loan	11	N.A.	LBB+ (stable)	LBB+ (stable)	-
Corporate Loan	3.23	N.A.	LBB+ (stable)	-	-
Non-Fund Based Limits	4	N.A.	A4+	A4+	-

ICRA has reaffirmed LBB+ (pronounced L double B plus) rating to the Rs. 15 crore (enhanced from Rs. 12 crore)<sup>1</sup> fund based bank limits and Rs. 11 crore term loans of Capital Foods Limited (CFL)<sup>†</sup>. ICRA has assigned LBB+ (pronounced L double B plus) rating to the Rs. 3.23 crore corporate loans of CFL. The outlook on the long term rating is stable. ICRA has also reaffirmed A4+ (pronounced A four plus) rating to Rs. 4 crore (enhanced from Rs. 3 crore) non fund based bank limits of CFL.

The ratings derive comfort from the experience of CFL's promoters, its presence in the niche Chinese noodles & processed foods segment, wide range of product profile aided by strong in-house manufacturing operations and pan India presence enabled by organised distribution network. The ratings continue to be constrained by CFL's low operating margins resulting from the highly competitive nature of the processed foods industry, susceptibility of margins to adverse fluctuation in the raw (mainly commodities) material prices, stretched net profitability resulting in low cash accruals, weak debt coverage indicators and high gearing. While rating this entity, ICRA has consolidated M/s. Capital Foods Exports Pvt. Ltd. (CFEPL), the holding company of CFL.

The ratings also take into account CFL's significant proposed brownfield capacity expansion at Vapi to manufacture instant noodles. ICRA notes that the aforementioned expansion will help CFL to scale up its production capacity by more than 100% thereby allowing the company to tap the growing domestic instant noodles market. However, ICRA notes that the relatively large expansion involves significant capital outlay, which could impact the financial risk profile in the medium term.

ICRA also notes CFL's plans to float a Special Purpose Vehicle (SPV) along with Future Group {Pantaloon Retail (India) Limited} and Chordia Food Products Limited in the current fiscal. The SPV is expected to invest in setting up a mega food park in Karnataka. The project is being set up under the 'Mega Food Park Scheme' of the Indian Government that aims to encourage Public-Private Partnership (PPP) in creating rural infrastructure in the food processing sector. The SPV will be floated subject to obtaining the regulatory approval which is expected to come by August/September 2010. Of the total project cost of approximately Rs. 150-200 crore, Rs. 50 crore will be funded by the government by way of subsidies. Of the balance, 30% each will be brought in by Future Group and Chordia Food Products Ltd., while 40% will be pumped in by CFL. The proposed investment in the SPV is significant and could have an adverse impact on the credit profile of the company. ICRA would be closely monitoring future developments related to this investment to assess the impact on the credit profile of the company.

### Company Profile

Incorporated in 1995, Capital Foods Limited (CFL) is engaged in the business of manufacture and marketing of ethnic food ingredients and food items. The manufacturing operations are carried out from plants in Nashik (Maharashtra) and Vapi (Gujarat). While the Nashik plant is engaged in the manufacture of a wide variety of processed foods viz. tomato ketch up, garlic & ginger pastes, sauces, chutneys, soups, baked beans etc. in different variants, the Vapi plant is dedicated to manufacture instant and hakka noodles. The company was promoted by Mr. Ajay Gupta (current MD) and it sells its products under the brand names of 'Ching's Secret', 'Smith & Jones', 'Mama Maria', 'Kaeng Thai' & 'Raji'.

<sup>1</sup> 100 lakh = 1 crore = 10 million

<sup>†</sup> For complete rating scale and definitions, please refer to ICRA's website [www.icra.in](http://www.icra.in) or other ICRA Rating Publications.



The company is a subsidiary of M/s. Capital Foods Exportts Pvt. Ltd. (CFEPL). The holding company, CFEPL {rated LBB+ (stable)/A4+ by ICRA}, is also in the similar line of processed foods industry as that of CFL. It is a 100% Export Oriented Unit and has its own production facility at Kandla Special Economic Zone in Gujarat.

#### **Recent Results**

For the financial year ended March 2010, the company reported a Net Profit of Rs. 2.3 crore on an operating income of Rs. 75.2 crore.

**July 2010**

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