

Edward Food Research and Analysis Centre Limited

Instrument	Amount	Rating Action
Non-Convertible Debentures (proposed)	Rs. 36.00 crore	[ICRA]BB- (Stable) assigned
Term Loan	Rs.11.00 crore	[ICRA]BB- (Stable) reaffirmed
Fund Based Limits	Rs.0.50 crore	[ICRA]BB- (Stable) reaffirmed
Non- Fund Based Limits	Rs. 2.50 crore	[ICRA]BB- (Stable) reaffirmed

ICRA has assigned the long term rating of [ICRA]BB- (pronounced ICRA double B minus) to the Rs. 36.00 crore¹ proposed non-convertible debenture programme of Edward Food Research and Analysis Centre Limited (EFRAC)². ICRA has also reaffirmed the long term rating of [ICRA]BB- assigned to the Rs. 11.00 crore term loan and the Rs. 0.50 crore cash credit limits and the Rs. 2.50 crore non- fund based bank limits of EFRAC. The outlook on the long-term rating is stable.

The rating action takes into account the improvement in scale of operations of the food testing and research laboratory in the first nine months of the current financial year, on the back of receipt of approvals from Food Safety & Standards Authority of India (FSSAI) and Agricultural & Processed Food Products Export Development Authority (APEDA) in the recent past. The rating continues to factor in the established track record of the Keventer Group in the food processing space, which supports EFRAC's market position to an extent. While assigning/reaffirming the rating, ICRA has taken note of the proposed demerger of the non-laboratory division of the company, including the real estate division, into a separate company, which will be closely held by the current promoters of EFRAC. Post the demerger all non- laboratory assets and liabilities will be transferred to the new company and the existing convertible debentures, preference shares, bank loans in the books of EFRAC is expected to be converted into equity and/or quasi equity. As part of the de-merger process, fresh equity capital, of ~Rs 14 crore, along with the proposed NCDs of Rs 36 crore is planned to be infused into EFRAC. The equity capital along with the NCDs will be subscribed to by an FII, which will hold 51% of the equity share capital of EFRAC, with the balance being held by the current promoters, post the de-merger process. ICRA notes that the funds from the issue of NCDs and subscription of shares will be used towards repayment of existing loans as well as for undertaking capital expenditure to scale up operations of the food testing division. Although the coupon rate on the NCDs is high at 18%, the structure of actual payment is such that only a limited portion of the accrued interest is payable in the initial periods with the balance being compounded and payable on redemption, at the end of 5 years from the date of subscription, of the NCD. For the first year, actual interest outgo will be limited to 5%, while in subsequent years it gradually increases to 13%. The limited interest outgo in the initial years provides some headroom to the company to scale up its business.

The rating however continues to be constrained by the weak financial profile of the company indicated by loss making operations and an unfavourable capital structure at present. Although income from the food testing business has witnessed a sharp increase in the current year, it still remains small on an absolute basis. While ICRA notes that tie up with reputed companies, in the food testing business, along with the planned investments to further improve the product offering bodes well for the company in the long term, the ability to substantially scale up the business as envisaged and managing its working capital cycle will be key rating sensitivities.

In addition to its operations in the food testing segment, EFRAC is currently holding an unutilized land in Paikpara, Kolkata, which is being developed into a residential project by the company by the name of "Keventer North" at an estimated cost of Rs. 28.81 crore, funded by term loan and promoter contribution/customer advances. Till date, 22 flats with an aggregate area of 36,540 sqft (~50% of total saleable area) have already been sold, although market risks remain for the balance unsold inventory. Further the collections against bookings remain low at present. However, post the demerger, the real estate project will be transferred to a

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.



closely held company of the group and EFRAC will continue to operate only in the food and drugs testing space.

Company Profile

EFRAC, a part of the Keventer Group, was established in August 1921 by Edward Keventer as Edward Keventer Pvt. Ltd. In 1986, the company was acquired by Mr. M. K. Jalan, the current promoter and chairman of the Keventer group. Subsequently, the company's name was changed to Edward Keventer Life Science Ltd., before being further changed to Edward Food Research & Analysis Centre Ltd. Since EFRAC was the first company to be set up by the Keventer Group, most land assets are in the books of EFRAC. The company has been engaged in agro processing through its facility at Barasat, near Kolkata, West Bengal. Currently, the company is operating a food testing and research laboratory to cater to the needs of food processors and exporters at Subhash Nagar, North 24, Parganas, Kolkata.

Latest Results

As per audited results, EFRAC recorded a net loss of Rs. 1.28 crore on the back of an operating income of Rs. 2.58 crore in 2014-15 as against a net loss of Rs. 5.21 crore on an operating income of Rs. 1.27 crore in 2013-14.

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