

## Saj Food Products Pvt. Ltd.

August 23, 2018

### Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund Based – Term Loan	30.00	40.00	[ICRA]A (Stable); Upgraded from [ICRA]A-(Stable)
Fund based – Cash Credit	60.00	50.00	[ICRA]A (Stable); Upgraded from [ICRA]A-(Stable)
Non-fund Based – Bank Guarantee	5.00	5.00	[ICRA]A1 ; Upgraded from [ICRA]A2+
<b>Total</b>	<b>95.00</b>	<b>95.00</b>	

\*Instrument details are provided in Annexure-1

### Rating action

ICRA has upgraded the long-term rating for the Rs. 40.00-crore<sup>1</sup> (revised from Rs. 30.00 crore) term loan and Rs. 50.00-crore (revised from Rs. 60.00 crore) cash-credit facility of Saj Food Products Pvt. Ltd. (SFPPL)<sup>2</sup> from [ICRA]A- (pronounced ICRA A minus) to [ICRA]A (pronounced ICRA A). ICRA has also upgraded the short-term rating for the Rs. 5.00-crore non-fund based bank facility of SFPPL from [ICRA]A2+ (pronounced ICRA A two plus) to [ICRA]A1 (pronounced ICRA A one). The outlook on the long-term rating is Stable.

### Rationale

The rating upgrade primarily considers the steady increase in SFPPL's scale of operations in recent years which is likely to continue in the near to medium term driven by its ongoing capacity expansion and increasing distribution network and significant improvement in the profit and coverage indicators in FY2018. ICRA also takes note of significant prepayment of term loans by SFPPL in FY2018, aided by improved cash accrual. The ratings also continue to draw comfort from the company's established track record in the biscuit-manufacturing business, the strong market position of SFPPL's brand (Bisk Farm) particularly in Eastern and North-Eastern India, which is backed by the Group's experience of around four decades in distribution of FMCG and pharmaceutical products, and a favourable demand outlook of the biscuit industry. The ratings also consider SFPPL's low working capital intensity of operations that resulted in a comfortable liquidity position, as reflected by a low utilisation of its working capital limit and sizeable free cash balance.

The ratings, however, take into consideration the high sensitivity of the profitability of biscuit manufacturers, including SFPPL, to fluctuations in raw material prices and intense competition from the unorganised players as well as other established peers, which are likely to keep margins under check. The company also remains exposed to geographical concentration risks as around three-fourth of its revenues are derived from West Bengal and the North East. To expand the overall capacity and geographical reach, in January 2018, SFPPL commissioned a plant in Nagpur, Maharashtra, but a part of the capacity is yet to become operational. The company has also embarked upon another capital expenditure programme to set up a plant near Bengaluru, Karnataka. ICRA notes that the company would remain exposed to the project execution and stabilisation risks associated with the ongoing capacity expansion, though such risks are mitigated to some extent by the management's experience in successfully executing such projects in the past. The company's ability to timely commission the project without any significant time and cost overrun, penetrate markets in new geographies and maintain turnover growth would be the key rating sensitivities, going forward.

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

<sup>2</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

## Outlook: Stable

ICRA believes SFPPL will continue to benefit from its established market presence in the Eastern and North-Eastern states and the Group's long experience in distribution business. The outlook may be revised to Positive if SFPPL succeeds in achieving substantial growth in revenues by expanding business in new geographies while maintaining its profitability. The outlook may be revised to Negative if any significant time and/or cost overrun in the ongoing capital expenditure programme negatively impacts the company's business profile.

## Key rating drivers

### Credit strengths

**Steady increase in scale of operations driven by ongoing capacity expansion and expanding distribution network** – The company has been in the process of expanding its capacity at regular intervals. During FY2018, it increased the capacity of its plant at Uluberia, West Bengal by 11,200 tonne per annum (TPA) and also partially commissioned a new plant in Nagpur, Maharashtra in January 2018. Once fully commissioned the Nagpur plant would have an overall capacity of 55,125 TPA. Over the last three fiscals, the company's production volumes increased by 10-12% year-on-year. The growth in SFPPL's scale of operations is likely to improve/sustain in the near to medium term, driven by the ongoing capacity expansion as well as its expanding distribution network. SFPPL's two group companies act as its super-stockists in West Bengal. In addition, SFPPL has 75 super-stockists catering to 1,273 distributors and around 223,000 dealers/retailers across the country.

**Strong financial profile, which improved further in FY2018** – The company's financial profile remained strong over the years, characterised by healthy net worth, conservative capital structure and strong debt-coverage metrics. During FY2018, SFPPL's operating margin improved to 6.13% from 3.71% in FY2017, aided by improved average realisation as well as moderation in the prices of raw materials and packaging materials. This also led to increased net margin of 2.55% in FY2018 vis-a-vis 0.84% in FY2017. Improved margins coupled with a turnover growth of around 14% during FY2018 led to a significant improvement in the profits at an absolute level as well as cash accrual. As a result, the company prepaid a significant amount of its existing term loans, and the gearing as on March 31, 2018 is estimated to decline further to around 0.4 times vis-a-vis around 0.6 times in the previous year. In FY2018, SFPPL's interest coverage also improved to 17.08 times from 7.55 times in FY2017.

**Established track record in biscuit manufacturing and strong market position, particularly in Eastern and North-Eastern India, aided by the group's long experience in distribution business** – The Group has been involved in biscuit-manufacturing business for nearly two decades. SFPPL offers around 155 varieties of biscuits in around 260 stock keeping units (SKU's) at present. Over the years, the company has included other bakery products like cakes, cookies, pastries, bread rusks, savouries, croissants, extruded snacks, wafers as well as Indian snacks in its product portfolio, though biscuit remains the mainstay of SFPPL's business. Its "Bisk Farm" brand has a strong presence in the Eastern and North-Eastern states. Prior experience of the promoters in the distribution of FMCG and pharmaceutical products of reputed brands for around four decades helped the entity in successfully penetrating the bakery market and building the brand.

**Low working capital intensive nature of business led to comfortable liquidity position** – The company's sales are made against cash or limited credit. The raw material inventory holding period for the company is low because of tie-ups with local suppliers. However, moderate level of finished goods and packaging material stocks are maintained to ensure smooth operation and distribution. The company avails limited credit from the suppliers. Nevertheless, low receivable and moderate inventory level limit the overall working capital intensity of operations. This coupled with significant advance from customers (mostly from a group company acting as a super-stockist) led to a negative NWC/OI (-2%) in FY2017. SFPPL's comfortable liquidity position kept the average working-capital utilisation low at only 4% during the period April 2017 to June 2018.

**Favourable demand outlook of the biscuit industry** – With increasing urbanisation and changing lifestyle, the demand outlook for biscuits in the country is likely to remain favourable, given the low per capita consumption at present. This is likely to support revenue growth for the biscuit players like SFPPL with established brand presence.

## Credit challenges

**Susceptibility to fluctuation in raw material prices** – The major raw materials required for manufacturing biscuits are wheat flour, sugar, edible refined hydrogenated vegetable oil, flavours, preservatives etc. The prices of flour, sugar and oil are highly dependent on both agro-climatic conditions and government policies and thus are subject to considerable volatility. The prices of the raw materials increased significantly during FY2017, denting the company's profit margins. However, a moderation in raw material prices during FY2018 led to an improvement in SFPPL's margins.

**Limited geographical diversification** – At present, SFPPL has market presence in 19 Indian states as well as in Nepal and Bhutan. However, its major markets remain West Bengal and the North East, which together accounted for around 75% of the company's revenue in FY2018, implying SFPPL's exposure to geographical concentration risks.

**Intense competition from unorganised and established players likely to keep margins under check** – The company remains exposed to stiff price-based competition from other established players and various small biscuit manufacturers, given a significant portion of its revenue is generated from highly price-sensitive sub-brands. Hence, SFPPL's limited pricing flexibility is likely to keep its margins under check.

**Exposure to project execution as well as stabilisation risks relating to the capital expenditure plan undertaken** – The company has embarked upon a project to set up a new plant near Bengaluru, Karnataka with a proposed capacity of 38,850 TPA. The project is estimated to result in a sizeable capital outlay of Rs. 101.24 crore (including Rs. 8.24 crore margin for working capital), which has been proposed to be funded by a term loan of Rs. 65.82 crore and the balance by internal accruals. The project is scheduled to be commissioned in August 2020. While the capital expenditure is aimed at increasing the company's geographical reach, venturing into new geographies is likely to entail higher brand building and distribution expenses. Moreover, the company's ability to commission the project within the budgeted cost and estimated timeframe, stabilise facilities and ramp up sales within a short gestation period post commissioning would remain important for the success of its capital expenditure programme.

**Analytical approach:** For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

### Links to applicable criteria:

[Corporate Credit Rating Methodology](#)

## About the company:

Saj Food Products Private Limited (SFPPL), incorporated in 2000, manufactures biscuits under the Bisk Farm brand that are mainly sold in Eastern and North Eastern India. SFPPL is a part of the Kolkata-based Aparna Group, which is promoted by Mr. K. D. Paul and is an established distribution house for FMCG as well as pharmaceutical products in eastern India for around four decades. Over the years, SFPPL increased its product offerings and introduced other food products such as cakes, cookies, pastries, bread rusks, savouries, croissants, extruded snacks, wafers as well as Indian snacks. The company sells Indian snacks products under the brand name, Indiaah. SFPPL has four manufacturing units in Uluberia, Sankrail, and Siliguri (two units) in West Bengal, with a combined production capacity of 148,250 TPA (increased by 11,200 TPA in FY2018). It has also commissioned a new plant in Nagpur, Maharashtra in January 2018. Once fully operational the Nagpur plant would have an overall capacity of 55,125 TPA. In addition, the company has also embarked upon a project to set up another plant near Bengaluru, Karnataka, with a proposed manufacturing capacity of 38,850 TPA.

In FY2018, on a provisional basis, the company reported a net profit of Rs. 22.57 crore on an operating income of Rs. 885.43 crore compared to a net profit of Rs. 6.54 crore on an operating income of Rs. 775.59 crore in FY2017.

## Key financial indicators

	FY2016 (Audited)	FY2017 (Audited)	FY2018 (Provisional)
Operating Income (Rs. crore)	667.26	775.59	885.43
PAT (Rs. crore)	13.01	6.54	22.57
OPBDIT/OI (%)	6.22%	3.71%	6.13%
RoCE (%)	19.62%	11.94%	-
Total Debt/TNW (times)	0.59	0.56	-
Total Debt/OPBDIT (times)	1.31	1.95	-
Interest coverage (times)	8.31	7.55	17.08

**Status of non-cooperation with previous CRA: Not applicable**

**Any other information: None**

## Rating history for last three years:

Chronology of Rating History for the Past 3 Years									
		Current Rating (FY2019)							
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating August 2018	Date & Rating in FY2018	Date & Rating in FY2017	Date & Rating in FY2016		
					April 2017	-	January 2016	April 2015	
1	Term Loan	40.00	53.49 (Mar 2017)	[ICRA]A (Stable)	[ICRA]A- (Stable)	-	[ICRA]A- (Stable)	[ICRA]BBB+ (Stable)	
2	Cash Credit	50.00	-	[ICRA]A (Stable)	[ICRA]A- (Stable)	-	[ICRA]A- (Stable)	[ICRA]BBB+ (Stable)	
3	Bank Guarantee	5.00	-	[ICRA]A1	[ICRA]A2+	-	[ICRA]A2+	[ICRA]A2	

## 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](http://www.icra.in)

## Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loan	06-Aug-15	NA	31-Mar-24	40.00	[ICRA]A (Stable)
NA	Cash Credit	NA	NA	NA	50.00	[ICRA]A (Stable)
NA	Bank Guarantee	NA	NA	NA	5.00	[ICRA]A1

Source: Saj Food Products Pvt. Ltd.

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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.

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