

Iscon Balaji Foods Pvt. Ltd.

November 30, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based - Term Loan	38.18	49.04	[ICRA]BBB(Stable); reaffirmed
Fund-based - WCDL	20.00	35.00	[ICRA]BBB(Stable); reaffirmed
Fund-based - Cash Credit - Sublimit to WCDL	-	(30.00)	[ICRA]BBB(Stable); reaffirmed
Fund-based - EPC/PCFC - Sublimit to WCDL	-	(5.00)	[ICRA]BBB(Stable); reaffirmed
Fund-based - Buyer's Credit - Sublimit to Term Loan	-	(18.2)	[ICRA]A3+; reaffirmed
Non-fund Based - Capex LC - Sublimit to Term Loan	-	(11.5)	[ICRA]A3+; reaffirmed
Non-fund Based - Bank Guarantee	2.32	1.70	[ICRA]A3+; reaffirmed
Fund-based - Forex Exposure	1.33	1.33	[ICRA]A3+; reaffirmed
Fund-based/Non-fund Based - Unallocated Limits	-	0.80	[ICRA]BBB(Stable)/[ICRA]A3+; reaffirmed
Total	61.83	87.87	

*Instrument details are provided in Annexure-1

Rationale

The rating reaffirmation continues to take into account the operational and financial support and synergies derived from the promoters due to its experience in the potato snacks industry and the company's reputed clientele. The ratings also factor in the growth in the operating income (OI) in FY2017 and FY2018 due to commencement of the French fries unit. Further, the ratings also consider the proximity of the processing unit to the major potato-growing regions of Gujarat and the entry barriers to the industry in the form of potato seed availability, certifications etc, which limit competition to a large extent.

The ratings are, however, constrained by moderation in the financial risk profile characterised by the decline in operating margins, moderation in the coverage indicators and increase in working capital intensity. The ratings are further constrained by the proposed debt-funded capex, which will expose the company to project-related risk and keep the capital structure and debt coverage indicators moderate over the near to medium term, till the commensurate returns start to flow. The ratings also remain constrained by the high working capital intensive business and also, the vulnerability of operations to agro-climatic risks, which may adversely affect the availability and price of potatoes (major raw material).

Outlook: Stable

ICRA expects IBF to continue to benefit from the extensive experience and financial support of its promoters, robust demand for its products and increased demand from the export market. The outlook may be revised to Positive if timely execution of the proposed capex within the budgeted cost, along with expected scale-up, leads to expected cash

accruals. Moreover, any significant equity infusion that improves the capital structure and debt protection metrics is a credit positive. The outlook may be revised to Negative if any decline in sales or profitability or delay in project execution or lower-than-expected scale-up of operations leads to lower-than-expected cash accruals. The outlook may further be negatively revised if any further increase in capex/capex cost or working capital increases the debt, which could result in overall moderation in the capital structure and coverage indicators.

Key rating drivers

Credit strengths

Experience of promoter group in potato-related business provides operational and financial support - IBF is owned and managed by the promoters of JP Iscon Ltd. (popularly known as Iscon Group in real estate), Balaji Wafers Pvt. Ltd. (BWPL) (represented by the Virani family) and Bharat Textiles (Mr. Bharat Kotak Nad Mr. Neel Kotak). BWPL has an established presence in the potato wafers and aligned snacks business; hence, IBF was incorporated to leverage on the BWPL expertise to venture into potato-based products, namely - potato flakes, frozen French fries and other ready-to-fry snacks. The company also benefits in terms of operational and financial support from the promoter group.

Reputed clientele, though remains concentrated - IBF's customer profile consists reputed customers, such as BWPL, Haldiram Foods Pvt. Ltd., Haldiram Snacks Pvt. Ltd., Bikaji Foods International Ltd., McCain India Food Pvt. Ltd., ITC Ltd., and Patanjali. However, the company does not have any long-term supply contracts with any of its customers. The customer concentration remained high with the top five customers contributing 51% in FY2018, though it reduced from 88% in FY2016 and 77% in FY2017 with the addition of new customers as well as diversification towards French fries. Also, the company added new export customers and currently, has orders of Rs. 41.11 crore in hand to be supplied during calendar year 2019.

Location-specific advantage - The company is based in Gujarat, an area with high potato acreage and quality crop, which provides easy access to quality raw material and contract-farmed potatoes from local farmers. Also, the company benefits in terms of infrastructure and logistics, such as established cold storage, adequate power availability, lower transportation cost, and accessibility to ports for exports.

Entry barriers in French fries segment - French fries manufacturing requires a specific type of potato, which is generated from European seeds. There are criticalities/restrictions involved in terms of acquisition of seed, time required to develop potato from the seeds, contract farming and capex for the setting up of plant and cold supply chain. Further, as a provider of processed food, the company requires various certifications (ISO, FSSAI, Agricultural and Processed Food Products Export Development Authority (APEDA), Hazard Analysis and Critical Control Points (HACCP), Halal certification etc) and stringent audits from clients. All these act as barriers for new entrants in the French fries manufacturing segment.

Credit challenges

Moderation in financial risk profile - The company witnessed a healthy revenue growth of 29% in OI to Rs. 66.78 crore in FY2017 from Rs. 51.73 crore in FY2016, and further of 31% in FY2018 to Rs. 87.53 crore with commissioning of the French fries unit. However, the operating profitability declined to 27.52% in FY2017 from 32.33% in FY2016, and further to 23.91% in FY2018. This was due to higher overheads and operating cost with the commissioning of the French fries plant in Limbasi. The company's total debt increased by 40% to Rs. 100.39 crore as on March 31, 2018 from Rs. 66.84 crore as on March 31, 2017 to meet the increased working capital requirements and to fund the capex. The total debt of Rs. 100.39 crore consisted interest bearing unsecured loan from promoters and their relatives of Rs. 33.07 crore (33% of the total debt), term loan of Rs. 29.73 crore (29% of the total debt), working capital facilities of Rs. 27.81 crore (28% of the total debt), buyer's credit of Rs. 6.78 crore (7% of the total debt) and Fully convertible debentures of Rs. 3.00 crore (3% of the total debt). The capital structure remained aggressive with a gearing of 2.51 times in FY2018. The decline in

profitability along with increased debt moderated the coverage indicators as reflected by the interest coverage ratio of 4.62 times in FY2017 and 3.83 times in FY2018 (vis-à-vis 5.09 times in FY2016), TOL/TNW of 2.21 times in FY2017 and 2.69 times in FY2018 (vis-à-vis 3.16 times in FY2016) and NCA/TD of 23% in FY2017 and 13% in FY2018 (vis-à-vis 19% times in FY2016). Further, the increased year-end potato inventory increased the working capital intensity as on FY2018 end, reflected by the NWC/OI ratio of 51% (vis-à-vis 34% in FY2017).

Risk associated with debt-funded capex and subsequent ramp-up of operations - The company plans to expand its existing flakes and French fries manufacturing capacity at a cumulative capex of Rs. 68.61 crore during FY2019-FY2021. The French fries unit capacity will be increased by 200% to 36,000 MTPA from 11,448 MTPA, while the flakes unit will be increased by 142% to 18,000 MTPA from 7,000 MTPA over a period of three years by setting up a new plant in Punjab. Although the capex is expected to support the revenue growth going forward, it will expose the company to risks related to timely project completion within the budgeted cost and the subsequent ramp-up as per the expected operating parameters.

High working capital intensity - The main raw material for manufacturing fries and flakes is potato. Since potato season generally ends in April, the company is required to start stocking potatoes from February to meet the requirement for the entire year, leading to increased inventory. Accordingly, there remains high working capital requirement during the financial year ends.

Vulnerability of profitability to raw material prices and agro-climatic risks - The business operations remain exposed to the adequate availability of quality potato (the major raw material) and prices thereof, given the agro-climatic risks and seasonality associated with it.

Liquidity Position:

Fund flow from operations continues to remain positive in FY2017 and FY2018. However, with high repayment obligations and interest and finance cost, the free cash flows have turned negative in FY2017 and FY2018. The working capital utilization stood high with average utilisation of 84% during 11 months period from December 2017 to October 2018. ICRA expects that healthy cash accruals along with promoter's contribution in form of equity and unsecured loan infusions will continue to support the capex and working capital requirements. The liquidity position of the company remains comfortable given availability of free cash balance along with its plans to enhance the working capital limits.

Analytical approach:

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not Applicable
Consolidation / Standalone	Rating is based on standalone financial statements of the issuer.

About the company

Incorporated in January 2012, Iscon Balaji Foods Private Limited is jointly owned by the promoters of JP Iscon Ltd. (Mr. Jayesh Kotak), BWPL (Mr. Pranay Virani) and Bharat Textiles Ltd. (Mr. Bharat Kotak and Mr. Neel Kotak). It is managed by Mr. Neel Kotak, an IIT Bombay alumnus. It produces dehydrated potato flakes and ready-to-fry snacks (French fries and other products). The potato flakes unit is located near Anand (Gujarat) and has a manufacturing capacity of 8,000 MTPA, while the French fries facility is located at Kheda district (Gujarat) with a manufacturing capacity of 11,448 MTPA. The company has also started manufacturing other ready-to-fry snacks, such as *a/oo* patty, and potato shots from the current fiscal.

In FY2018, the company reported a net profit of Rs. 10.57 crore on an OI of Rs. 87.53 crore, compared to a net profit of Rs. 10.81 crore on an OI of Rs. 66.78 crore in FY2017.

Key financial indicators (audited)

	FY2017	FY2018
Operating Income (Rs. crore)	66.78	87.53
PAT (Rs. crore)	10.81	10.57
OPBDIT/ OI (%)	27.52%	23.91%
RoCE (%)	19.01%	14.95%
Total Debt/ TNW (times)	2.24	2.51
Total Debt/ OPBDIT (times)	3.64	4.80
Interest Coverage (times)	4.62	3.83

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

Instrument	Type	Current Rating (FY2019)		Chronology of Rating History for the past 3 years			
		Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2019 November 2018	Date & Rating in FY2018 May 2017	Date & Rating in FY2017 March 2017	Date & Rating in FY2016
1 Term Loan	Long Term	49.04	29.73*	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	-	-
2 WCDL	Long Term	35.00	-	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	-
3 Cash Credit - Sublimit to WCDL	Long Term	(30.00)	-	[ICRA]BBB (Stable)	-	-	-
4 EPC/PCFC- Sublimit to WCDL	Long Term	(5.00)	-	[ICRA]BBB (Stable)	-	-	-
5 Buyer's Credit- Sublimit to Term Loan	Short Term	(18.2)	6.77*	[ICRA]BBB (Stable)/A3+	-	-	-
6 Capex LC - Sublimit to Term Loan	Short Term	(11.5)	-	[ICRA]BBB (Stable)/A3+	[ICRA]A3+	-	-
7 Bank Guarantee	Short Term	1.70	-	[ICRA]A3+	[ICRA]A3+	-	-
8 Forex Exposure	Short Term	1.33	-	[ICRA]A3+	-	-	-
9 Unallocated Limits	Long/Short Term	0.80	-	[ICRA]BBB (Stable)/A3+	-	-	-

* as on March 31, 2018

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: 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	FY2013	9.55%	FY2025	49.04	[ICRA]BBB (Stable)
NA	WCDL	NA	NA	NA	35.00	[ICRA]BBB (Stable)
NA	Cash Credit - Sublimit to WCDL	NA	NA	NA	(30.00)	[ICRA]BBB (Stable)
NA	EPC/PCFC - Sublimit to WCDL	NA	NA	NA	(5.00)	[ICRA]BBB (Stable)
NA	Buyer's Credit - Sublimit to Term Loan	NA	NA	NA	(18.2)	[ICRA]BBB (Stable)/[ICRA]A3+
NA	Capex LC - Sublimit to Term loan	NA	NA	NA	(11.5)	[ICRA]BBB (Stable)/[ICRA]A3+
NA	Bank Guarantee	NA	NA	NA	1.70	[ICRA]A3+
NA	Forex Exposure	NA	NA	NA	1.33	[ICRA]A3+
NA	Unallocated Limits	NA	NA	NA	0.80	[ICRA]BBB (Stable)/A3+

Source: Iscon Balaji Foods Pvt. Ltd.

Annexure-2: List of entities considered for consolidated analysis

Not Applicable

Suprio Banerjee
+91 22 6114 3443
supriob@icraindia.com

ANALYST CONTACTS

K. Ravichandran

+91 44 4596 4301

ravichandran@icraindia.com

Preet Ludhwani

+91 79 4027 1542

preet.ludhwani@icraindia.com

Mayank Agrawal

+91 79 4027 1514

mayank.agrawal@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee

+91 80 4332 6401

jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani

Tel: +91 124 4545 860

communications@icraindia.com

Helpline for business queries:

+91-124-2866928 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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ICRA Limited

Corporate Office

Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002

Tel: +91 124 4545300

Email: info@icraindia.com

Website: www.icra.in

Registered Office

1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001

Tel: +91 11 23357940-50

Branches

Mumbai + (91 22) 24331046/53/62/74/86/87

Chennai + (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,

Kolkata + (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,

Bangalore + (91 80) 2559 7401/4049

Ahmedabad+ (91 79) 2658 4924/5049/2008

Hyderabad + (91 40) 2373 5061/7251

Pune + (91 20) 6606 9999

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