

## Jain Farm Fresh Foods Limited <sup>Revised</sup>

January 31, 2019

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term Loan	75.00	150.00	[ICRA]BBB+ (Stable); Reaffirmed
Fund-based - Working Capital Facilities	260.00	285.00	[ICRA]BBB+ (Stable); Reaffirmed
Non-fund Based - Working Capital Facilities	150.00	255.00	[ICRA]A2; Reaffirmed
Long-term Unallocated Limits	40.00	50.00	[ICRA]BBB+ (Stable); Reaffirmed
Short-Term Unallocated Limits	50.00	40.00	[ICRA]A2; Reaffirmed
<b>Total</b>	<b>575.00</b>	<b>780.00</b>	

\*Instrument details are provided in Annexure-1

### Rationale

The reaffirmation of ratings continues to take into account the company's established and leading position in the mango pulp and onion dehydration markets. JFFFL has a wide distribution and procurement network further strengthened by its well-established relationship with farmers in Maharashtra and Andhra Pradesh, from where it meets majority of its onion and mango requirements. The ratings further take into account the reputed domestic and international clientele of the company which leads to repeat business. The company benefits from its longstanding relationship with its key customer, viz. Hindustan Coca-Cola Beverages Private Limited, with whom it enters into annual contracts that provide revenue visibility. Since the price for the company's fixed-price contracts with its customers is determined towards the beginning of the production season, the company has the flexibility to partially pass on any material price increase to its customers, especially in case of its mango-pulp supply contracts, thereby mitigating the exposure to price risk to a certain extent. The ratings also favorably consider the company's strong parentage and the benefits accruing from the experience of the parent company, Jain Irrigation Systems Limited (JISL), in the agricultural value chain. Further, there has been an improvement in JISL's financial profile over the last two-three fiscals driven by increase in scale of operations and operating profits. The ratings also factor in the favorable demand outlook for the fruit drinks market and the food processing industry.

The ratings are, however, constrained by the exposure of the company's operations to agro-climatic risks and seasonality, which impact the availability of raw materials, i.e. fresh fruits and vegetables. JFFFL also faces significant competition from other producers of dehydrated onion in the international market. The ratings also take into account the exposure of the company's profitability to fluctuations in foreign exchange (forex) rates, since ~50% of JFFFL's standalone revenues are derived from exports. Given the highly seasonal nature of raw material procurement, the company's operations are working capital-intensive leading to high inventory of finished goods and high utilisation of working capital limits. ICRA also notes the increase in the company's borrowing levels on account of increase in working capital intensity, debt-funded acquisition of InnovaFood N.V., a Belgian-based entity, in Q4 FY2018 and capex undertaken towards setup of spices manufacturing unit. The company's ability to deleverage its balance sheet and also improve its return indicators, which currently are moderate, would remain important from a credit perspective. Further, fructification of JFFFL's efforts to diversify and enhance its retail business and the newly set up spices business remains to be seen.

## Outlook: Stable

ICRA believes JFFFL will continue to benefit from its well-established presence in the fruit processing and vegetable dehydrations business and its long-term healthy relationship with reputed customers. The outlook may be revised to 'Positive' if there is a material deleveraging of JFFFL's consolidated balance sheet leading to improvement in its debt coverage metrics coupled with material improvement in its return indicators. The outlook may be revised to 'Negative' if there is any higher-than-expected debt-funded capex or acquisition leading to an increase in the company's borrowing levels or if the company's working capital intensity worsens further.

## Key rating drivers

### Credit strengths

**Established and leading market presence in the domestic vegetable dehydration and mango pulp industry** – The company has a well-established position in the domestic food processing market with a sizeable contribution from exports as well. It has been in the business for about 25 years, earlier through JISL, who subsequently sold off the business to JFFFL in March 2016. The company has also grown its international presence through multiple acquisitions over a period of years in the USA, UK, and Belgium.

**Efficient supply chain management with broad procurement and distribution network** – JFFFL has a widespread distribution network spanning various urban and semi-urban regions. It has a vast procurement network further strengthened by its well-established relationship by farmers in Maharashtra, Andhra Pradesh, and Tamil Nadu.

**Reputed domestic and international clientele generating stable repeat business** – The company supplies to a number of reputed domestic and international FMCG players through long-term contracts. Hindustan Coca-Cola Beverages Private Limited, one of JFFFL's key domestic clients, has been dealing with the company for over 15 years and contributes to 25%~30% of the company's total standalone sales.

**Diversified geographical presence** – About 50% of the company's total standalone sales are in the form of exports, mainly to Iran, Saudi Arabia, Netherlands, Belgium, etc. The diversified geographical presence mitigates the demand risks arising from a particular country to some extent. Overall, the long-term demand outlook for fruit beverages and processed foods market, especially in emerging markets, is positive and is expected to support the company's revenue growth.

**Benefits from strong operational experience of the parent company** – JFFFL's parent, JISL, is the second largest micro-irrigation company globally and the largest manufacturer of micro-irrigation equipment in India. JFFFL stands to benefit from JISL's rich and long-running experience in the agricultural value chain.

### Credit challenges

**Operations exposed to agro-climactic risks and seasonality** – The company's operations require fresh fruits and vegetables, the production of which is exposed to agro-climactic risks and is seasonal in nature. The quality of crop of the fruits and vegetables has a direct impact on the availability and prices of the raw materials and, in turn, on the company's profitability.

**Intense competition from international players in the onion dehydration business** – Around 80% of JFFFL's sales from the onion dehydration business are exports. The company faces stiff competition from other producers of dehydrated onion and garlic in the international market.

**Increase in borrowing levels and high working capital intensity** – The company's inventory requirement is at its peak during the mango season, which leads to high inventory position during that period of the year. The inventory is subsequently sold in the remaining part of the fiscal. At times, the company maintains even higher raw material inventory to cover two seasons so as to reduce the risks arising from unfavourable agro-climatic conditions in the subsequent year. The company's consolidated borrowing levels increased in FY2018 owing to the increase in working capital intensity, debt-funded acquisition of InnovaFood N.V. and capex undertaken towards setup of spices manufacturing unit.

**Exposure to forex risk** – The company is exposed to volatility in forex rates given the high share of exports. While the company does not have a firm hedging policy, it has currently hedged about 40% of its exports as well as part of its future foreign currency cash flows on its inventory.

**Ability to scale up in new businesses remains critical** – The company's ability to ramp up its newly launched retail and spice manufacturing operations remains to be seen as the company has experience in only business-to-business (B2B) operations so far. The retail operations, currently occupy a small share of the company's total sales, but are expected to increase their sales contribution in the medium term.

### Liquidity Position:

JFFFL's cash flows from operations remains negative on account of the increase in working capital intensity in FY2018. Further, the company's utilisation of its working capital limits also remains high. The company, however, benefits from its longstanding relationship with its banks given the long presence of its parent company in the business. The liquidity profile is expected to improve with the recently setup new warehouse (built after a fire incident at the old warehouse in November 2017) that would reduce the additional warehousing costs incurred in the past year, expected receipts of insurance claim and healthy cash flows from newly acquired, InnovaFood N.V., which is a debt-free entity.

### Analytical approach:

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">Corporate Credit Rating Methodology</a>
Parent/Group Support	Not Applicable
Consolidation / Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of Jain Farm Fresh Foods Limited. As on March 31, 2018, the Company had 11 wholly-owned subsidiaries that are enlisted in Annexure-2.

### About the company:

Incorporated in 2015, Jain Farm Fresh Foods Limited (JFFFL) is a subsidiary of Jain Irrigation Systems Limited (JISL). The company was formed as a result of the sale of the food processing business (previously being undertaken under JISL itself since 1995) with effect from March 31, 2016 on slump sale basis as a going concern. It is a food processing company engaged in the production of dehydrated onion and vegetable products. It also produces aseptic fruit purees, concentrates, clarified juices, and frozen products. These products are marketed under the brand name 'Jain FarmFresh'. In 2017, the company launched its retail business with its first branded product called "Aamrus" (sweetened frozen mango pulp) under the umbrella brand name of "FarmFresh". Later, the company added a new brand "FRU2go" (fruit pulp in various variants). In 2018, the company ventured into spice manufacturing and would be launching its spice retail operations across India in the current year.

### Key financial indicators (Consolidated - audited)

	FY2017	FY2018
Operating Income (Rs. crore)	1,579.4	1,628.1
PAT (Rs. crore)	60.5	-43.5
OPBDIT/OI (%)	13.2%	11.4%
RoCE (%)	10.1%	6.0%
Total Debt/TNW (times)	0.6	1.0
Total Debt/OPBDIT (times)	3.3	5.5
Interest coverage (times)	3.1	2.4

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

**Any other information: None**

### Rating history for last three years:

		Current Rating (FY2019)			Chronology of Rating History for the Past 3 Years		
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating Jan 2019	Date & Rating in FY2018 Oct 2017	Date & Rating in FY2017	Date & Rating in FY2016
1 Fund based – Term Loan	Long Term	150.00	112.5	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	-	-
2 Fund based – CC/ WCDL	Long Term	285.00	-	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	-	-
3 Non-fund based – BG/LC	Short Term	255.00	-	[ICRA]A2	[ICRA]A2	-	-
4 Unallocated limits	Long Term	50.00	-	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	-	-
5 Unallocated limits	Short Term	40.00	-	[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	FY2018	-	FY2025	150.00	[ICRA]BBB+ (Stable)
NA	Cash Credit/ WCDL	NA	NA	NA	285.00	[ICRA]BBB+ (Stable)
NA	Letter of Credit & Bank Guarantee	NA	NA	NA	255.00	[ICRA]A2
NA	Long-Term Unallocated Limits	NA	NA	NA	50.00	[ICRA]BBB+ (Stable)
NA	Short-Term Unallocated Limits	NA	NA	NA	40.00	[ICRA]A2

Source: Jain Farm Fresh Foods Limited

## Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Jain International Foods Limited	100.00%	Full consolidation
Sleaford Food Group Limited	100.00%	Full consolidation
Sleaford Quality Foods Limited	100.00%	Full consolidation
Arnolds Quick Dried Foods Limited	100.00%	Full consolidation
Jain America Foods Inc	100.00%	Full consolidation
Jain Irrigation Holding Inc	100.00%	Full consolidation
Cascade Specialities Inc	100.00%	Full consolidation
Jain Farm Fresh Holdings SPRL	100.00%	Full consolidation
Innovatrading BVBA	100.00%	Full consolidation
Innovafood N.V.	100.00%	Full consolidation
JIO	100.00%	Full consolidation

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**Corrigendum:**

Document dated January 31, 2019 has been corrected with revisions as detailed below:

Section related to analytical approach on page 3: Parent/ Group Support has been revised to “Not Applicable”

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