September 10, 2019

Unibic Foods India Private Limited: Ratings of [ICRA]BB+ and [ICRA]A4+ reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term-Cash Credit	32.50	40.00	[ICRA]BB+ (Stable); Reaffirmed
Long Term-Term Loan	17.00	13.00	[ICRA]BB+ (Stable); Reaffirmed
Short Term-Bank Guarantee	0.50	0.03	[ICRA]A4+; Reaffirmed
Total	**50.00**	**53.03**	

**Instrument details are provided in Annexure-1*

Rationale

The ratings continue to derive comfort from the extensive experience of Unibic's senior management in the biscuit/cookies segment, having worked with established players such as Britannia in the past, and the funding support from Peepul Capital LLC, the company's primary shareholder. The ratings also consider the healthy growth in scale of operations, regular introduction of new variants and expansion in its distribution network. The ratings also factor in its diversified presence across distribution channels, which limits its dependence on any specific distribution channel. The ratings also factor in its comfortable working capital position, supported by low debtors, low inventory levels and high credit period from suppliers and adequate liquidity position supported by the cushion available in the form of undrawn working capital limits.

The ratings, however, are constrained by the moderate scale of operations viz-a-viz its peers, and subdued operating and net profit margins owing to high employee and selling expenses, notwithstanding the improvement witnessed in FY2018. The ratings also factor in the deterioration in its capital structure and debt coverage metrics owing to an increase in working capital borrowings towards the year-end due to a delay in receivables from the Canteen Stores Department, coupled with reduction in its profitability and net cash accruals. The ratings continue to remain constrained by intense competition faced by Unibic from established players such as Britannia, Parle and ITC, which have wider geographical presence and a diversified product portfolio. The ratings also consider vulnerability of the company's profitability to volatility in raw material prices, given its limited ability to pass on any increase in raw material prices.

The Stable outlook on the [ICRA]BB+ rating reflects ICRA's opinion that Unibic will continue to benefit from the extensive experience of its senior management's in the biscuit/cookies industry, its healthy revenue growth and its established brand presence across India.

Key rating drivers

Credit strengths

Extensive experience of senior management in the biscuits/cookies industry - The senior management of Unibic has extensive experience in the biscuit/cookies industry. Mr. Nikhil Sen, the Managing Director, was formerly a COO of Britannia Industries. Mr. Ashok Gupta, the CFO, worked with Britannia Industries for more than two decades before joining Unibic. Similarly, Mr. VVS Mani, Director – Operations, has worked with Britannia for more than 25 years.

Healthy growth in revenues over the years – Over the last three years, the company's revenues witnessed a healthy CAGR of 23.1%, reaching Rs. 381.7 crore in FY2019 compared to Rs. 204.6 crore in FY2016. The revenue growth has been driven by penetration and higher revenue contribution from the non-South markets, regular introduction of new variants, increase in brand visibility through aggressive marketing campaigns and a periodic increase in installed capacity to complement the increase in demand.

Pan-India presence with diversified distribution network – Unibic has a pan-India presence with more than 11,000 distributors through which it reaches out to more than 3 lakh retail stores, apart from presence in more than 2,000 modern trade stores. The company's revenues are diversified across distribution channels such as modern trade, canteen stores, institutional sales and private labels in addition to the traditional distribution channel.

Diversified range of cookies across segments – The company at present has 27 variants in cookies with 170+ stock keeping units. Unibic classifies its product categories under three major segments, viz. Health and Wellness, Butter Cookies and Indulgence. The Indulgence segment has continued to remain the top contributor, accounting for around 46.5% of Unibic's revenue, followed by the health and wellness segment, which contributed around 26.7% to the revenues. The remaining came from butter segment, snack bars and assorted gift packs.

Comfortable working capital position – Unibic generally maintains a controlled raw material and finished goods inventory level of around a month. While the company receives a credit period of around 30 days from its suppliers, it also provides a credit period of 30 days to its customers in general. This resulted in comfortable working capital intensity, as measured by NWC/OI of around 5-8% over the years. Although the receivable position was stretched towards the end of FY2019, owing to a delay in receivables from the Canteen Stores Department (CSD), the pending receivables were collected by April/May 2019.

Credit challenges

Moderate scale of operations coupled with low profitability levels – While the operating income of the company has increased to Rs. 381.7 crore in FY2019 from Rs. 293.1 crore in FY2018, its scale of operations remains moderate compared to the more established peers operating in the same industry. The profitability continues to remain low with operating margins declining in FY2019, primarily owing to increased employee and selling expenses following the launch of the snack bar in FY2019.

Deterioration in capital structure and debt coverage metrics – The capital structure of the company deteriorated as reflected by a gearing of 1.1 times as on March 31, 2019 compared to 0.8 times as on March 31, 2018. This was primarily owing to higher working capital borrowings towards the year-end due to delay in payments from the CSD. With the increase in total borrowings and decline in operating profits, the coverage indicators also witnessed a deterioration with Total debt/OPBDITA of 6.6 times and interest coverage of 2.5 times in FY2019 compared to Total debt/OPBDITA of 4.2 times and interest coverage of 2.7 times in FY2018. However, ICRA notes the reduction in receivables and the consequent reduction in working capital borrowings in 5M FY2020. The working capital borrowings levels reduced to Rs. 13.2 crore as on August 31, 2019.

Intense competition given the presence of large established players - Unibic faces intense competition from established players such as Britannia, ITC and Parle given their better brand recognition, wider geographical presence and diversified product portfolio owing to their established presence in the business over a long period of time. The company has partially offset the competition by focusing more on the premium segment of cookies where the margins are relatively higher. It has been promoting its brand through various advertising activities to achieve better brand recognition and in turn, higher revenues.

Vulnerability of profitability to any adverse fluctuations in raw material prices - The margins of the company remain exposed to fluctuations in prices of raw materials such as sugar, wheat flour, butter etc. with limited ability to pass on any increase in raw material prices. However, the company enters into fixed price arrangement with its raw material vendors for small durations to mitigate the risk to some extent.

Liquidity position: Adequate

The liquidity position of company remains adequate as reflected by an average working capital utilisations of 60% between July 2018 and August 2019. Additionally, the company has also applied for Rs. 10.0 crore enhancement in working capital limits, which would provide additional cushion, considering its increasing working capital requirements for increasing scale of operations. Its cash accruals are expected to be adequate to meet the debt repayment obligations and the expected scale of capex over the near to medium term.

Rating sensitivities

Positive triggers – ICRA could upgrade Unibic's ratings if the company demonstrates a sustained improvement in its profit margins leading to improved return indicators and debt protection metrics, while maintaining its revenue growth. Specific credit metrics that could lead to an upgrade of Unibic's rating include (1) ROCE of more than 12.0% (2) Total Debt/ OPBITDA below 3.0 times and (3) Interest coverage ratio of more than 3.5 times.

Negative triggers – Negative pressure on Unibic's ratings could arise if its profitability and cash flows deteriorate from the current levels or an increase in working capital intensity weakens the liquidity position of the company.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not Applicable
Consolidation / Standalone	The ratings are based on standalone financial profile of the entity

About the company

Unibic Foods India Private Limited (Unibic) (erstwhile Unibic Biscuits India Private Limited) was incorporated in India in 2004 and manufactures specialty cookies. Unibic, established as the Indian arm of Unibic Australia, was acquired under a stake sale by Lazard in 2011 and was subsequently sold to Peepul Capital LLC in 2013.

Unibic's manufacturing facility is in Bangalore and it has installed multiple wire-cut manufacturing lines over the years. The company's product range includes 27 varieties including Chocochip, Oatmeal, Butter, Cashew, Milk and Choco Ripple among others. Apart from manufacturing cookies under its own brands, Unibic manufactures cookies under private labels for Café Coffee Day, Indigo Airlines, Art of Living, Chai Point etc. The company holds British Retailers Consortium (BRC) as well as Hazard Analysis and Critical Control Point (HACCP) certifications that highlight the quality of its products.

In FY2019, the company reported a net profit of Rs. 0.3 crore on an OI of Rs. 381.7 crore compared to a net loss of Rs. 0.8 crore on an OI of Rs. 293.1 crore in the previous year.

Key financial indicators (Audited)

	FY2018	FY2019
Operating Income (Rs. crore)	293.1	381.7
PAT (Rs. crore)	-0.8	0.3
OPBDIT/ OI (%)	2.5%	1.8%
RoCE (%)	2.5%	4.8%
Total Debt/ TNW (times)	0.8	1.1
Total Debt/ OPBDIT (times)	4.2	6.6
Interest Coverage (times)	2.7	2.5

Status of non-cooperation with previous CRA: NA

Any other information: None

Rating history for last three years

	Instrument	Current Rating (FY2020)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as on March 2019 (Rs. crore)	Date &Rating in FY2020 10-Sep 2019	Date & Rating in FY2019 06-Sep 2018	Date & Rating in FY2018 05-Jan 2018	Date & Rating in FY2017 07-Mar 2017
1	Cash Credit	Long term	40.00	-	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)	[ICRA]BB (Stable)	[ICRA]BB (Stable)
2	Term Loan	Long term	13.00	13.80	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)	[ICRA]BB (Stable)	[ICRA]BB (Stable)
3	Bank Guarantee	Short term	0.03	-	[ICRA]A4+	[ICRA]A4+	[ICRA]A4	[ICRA]A4

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	Cash Credit	-	-	-	40.00	[ICRA]BB+ (Stable)
NA	Term Loan	FY2017	-	FY2023	13.00	[ICRA]BB+ (Stable)
NA	Bank Guarantee	-	-	-	0.03	[ICRA]A4+

Source: Unibic Foods India Private Limited

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About ICRA Limited:

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.

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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