

August 28, 2020

Mrs. Bectors Food Specialities Limited: Ratings reaffirmed; Rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term Loans	148.0	187.0	[ICRA]A+ (Positive); reaffirmed
Fund based limits	45.0	50.0	[ICRA]A+ (Positive); reaffirmed
Non fund-based limits	22.0	13.5	[ICRA]A1+; reaffirmed
Unallocated	0.0	19.5	[ICRA]A+ (Positive)/ [ICRA]A1+; reaffirmed
Total	215.0	270.0	

*Instrument details are provided in Annexure-1

Rationale

The reaffirmation of the ratings factor in the expected healthy growth in revenues from the domestic branded biscuits and bakery segment of Mrs. Bectors Food Specialities Limited (MBFSL) as the demand for packaged foods remains buoyant. While the demand in the domestic retail segment is strong, the institutional bakery segment has been severely impacted by the Covid-19 pandemic with the quick service restaurants (QSR) remaining closed for quite some time and witnessing bleak demand due to the situation. Nonetheless, the company has reported healthy revenue growth in Q1 FY2021 with improvement in operating margins. Moreover, the liquidity remains strong with availability of cash balances of more than Rs. 30 crore and sizeable cushion in working capital limits.

The ratings also have taken into consideration the healthy internal accrual generation on the back of steady profit levels, which coupled with the low working capital intensity of business, have translated into strong cashflow from operations. These factors have resulted in comfortable debt coverage indicators as reflected by interest coverage of 6.1 times, debt/OPBDITA of 1.4 times, NCA/debt of 47% and DSCR of 2.3 times as on March 31, 2020 (provisional). As the company has been undertaking sizeable capex over the past few years for expansion of product profile and improving penetration in identified markets, there has been moderation in return metrics. While the company has planned a debt-funded capex in the near term which is expected to result in an increase in debt levels, the capital structure and coverage indicators are not expected to deteriorate materially. Moreover, the return on capital employed (RoCE) is expected to remain rangebound. Going forward as well, the company is expected to witness steady revenue growth on the back of its adequately established brand, distribution reach, and continued relations with institutional clients.

The ratings continue to factor in the extensive experience of MBFSL's promoters in the food-processing industry. Its presence across diversified sales channels such as retail sales of biscuits and breads, institutional sales of buns, private labelling and exports acts as a mitigant against slowdown in any particular segment. Also, the company's diversified manufacturing base and its long relationship with reputed institutional customers such as McDonald's Corporation, Burger King India, KFC India and Mondelez India Foods Limited, etc., support the ratings. Further, the demand for packed foods is expected to grow steadily driven by the population base, increasing spending ability, and shift towards branded product consumption.

The ratings, however, are constrained by MBFSL's exposure to stiff competition from branded players like Britannia Industries Ltd., ITC, Parle Agro Pvt Ltd., Anmol Industries Ltd., Harvest Gold Industries Pvt. Ltd., Modern Foods India Ltd., etc., many of which have much a larger scale as well as more deeply entrenched brands. Moreover, a large unorganised

segment with strong local presence adds to the competition, making revenue growth and profitability challenging. Further, the margins remain vulnerable to adverse movement in raw materials, although an adequately strong brand provides some hedge. Further, the majority of the retail sales of the company are generated in northern India, indicating geographical concentration. Continuation of the past trend of consistent capex to expand manufacturing capacities is expected to reduce the reliance on high external debt. The ratings also factor in that quality would remain a risk for the company as it operates in the food industry.

Moreover, the company has witnessed a few rounds of equity infusion from private equity players, the last one was in December 2015 with a committed investment horizon of five years. Thus, the company would be required to provide an exit to the investor by way of IPO or sale to any other investor. However, the same is unlikely by the end of the committed period. Any development on the exit of the existing investor would remain a key monitorable.

Key rating drivers and their description

Credit strengths

Extensive experience of promoters and brand recognition – MBFSL’s promoters, Mrs. Rajni Bector and Mr. Anoop Bector and family members, have more than two decades of experience in the biscuits and bakery industry. Over this period, Mrs. Bector’s English Oven and Mrs. Bector’s Cremica have become established brands in the bakery and biscuits business and enjoy good brand recognition and customer acceptance in northern India. However, these brands face stiff competition from other established brands as well as local players.

Long relationships with clients provide revenue visibility – MBFSL manufactures biscuits under private labeling for Mondelez, in addition to private label exports for international clients. This apart, it supplies buns to institutional clients like McDonalds, KFC, Burger King, etc. The strong relationships with a reputed client base ensure regular business, thereby providing stability to the OI to some extent.

Diversified business presence – The company operates in two segments—biscuits and bakery. The sales channel is quite diversified and includes selling of domestic branded biscuits (37% of total sales in FY2020), exporting of branded biscuits (11%), biscuit exports under private label (10%), contract manufacturing of biscuits (7%), branded domestic bakery (19%) and institutional bakery (15%).

Strong capital structure; robust coverage indicators – The total debt on the books of the company stood at Rs. 132.2 crore as on March 31, 2020 (provisional). The capital structure has been comfortable as reflected by gearing of 0.41 times and the coverage indicators have remained robust with interest coverage of 8.87 times, debt/OPBDITA of 1.64 times, NCA/debt of 41% and DSCR of 3.49 times as on March 31, 2020. While the debt levels are expected to increase due to the ongoing debt-funded capex, the metrics are not likely to deteriorate materially.

Low working capital intensity of operations and healthy liquidity position – The working capital intensity of the business inherently remains low. Due to the perishable nature of the inventory, the company’s overall inventory levels remain low. This, coupled with the low credit period offered, reduces the receivable levels as well. Also, the availability of cash balances of more than Rs. 30 crore as on March 31, 2020 and sizeable cushion in fund-based limits translate into a healthy liquidity position. The working capital intensity is expected to remain low and the liquidity is also likely to remain healthy going forward.

Favorable demand outlook: The Covid-19 situation has led to strong demand for packaged foods, which is likely to continue in the near term. This had helped the company attain healthy growth in domestic branded retail sales in Q1 FY2021, even as the institutional buns segment has been impacted by the pressure on the QSR segment.

Credit challenges

Pressure on ROCE amid sizeable capex – The company has incurred sizeable capex over the last few years which is yet to deliver desirable results thereby resulting in depression in the ROCE. Last few years witnessed sluggishness in demand for biscuits in India, and this followed the decline in international sales in FY2020 due to realignment of export strategy and now the pressure on sales from the QSR segment. Thus, despite the sizeable capex, return on the same has been muted. Further, the company continues to incur capex to expand its capacities in both biscuits and bakery segment which would keep RoCE subdued.

Geographical concentration: Domestically, the company is largely a North Indian player, with 80–85% revenue contribution from northern states like Punjab, Haryana, UP, Delhi, Rajasthan, HP, and J&K.

Competition from local manufacturers and established players – The industry is highly competitive with the presence of branded players like Britannia, ITC, Parle, Modern, Harvest Gold, Anmol Industries, etc. Some of these players have a large scale of operations, a pan-India presence and are well-established brands. Apart from these, the company is exposed to competition from a large, local unorganised segment.

Quality risks – Given the company’s operations in the food industry, risks regarding quality and reputation remain high.

Liquidity position: Strong

The liquidity position of the company remains **strong** with availability of free cash of more than Rs. 30 crore and sizeable unutilised bank lines. This, along with generation of healthy cash flows from operations and inherently low working capital intensity of business, despite the consistent debt-funded capex, is expected to keep the liquidity strong.

Rating sensitivities

Positive Triggers – The ratings can be upgraded if the company continues to demonstrate healthy growth in its operating income (OI) with expansion in new geographies, while maintaining its profitability, leading to debt/OPBDITA of less than 1.3 times and ROCE of more than 17% on a sustained basis.

Negative Triggers – The outlook can be revised to Stable, if there is a material decline in OI or profit margins, or a sizeable debt-funded capex, which may impact its liquidity position.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not applicable
Consolidation / Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of Mrs. Bectors Food Specialities Limited; as on March 31, 2018, the company had two subsidiaries (Bakebest Foods Private Limited and Mrs. Bectors English Oven Limited) and an associate (Cremica Agro Foods Limited) that are listed in Annexure-2.

About the company

MBFSL was established in 1995 as a joint venture (JV) with Quaker Oats for supplying condiments such as ketchup and sauces to McDonalds. It gradually added buns, batter, and bread to its portfolio. The JV partner withdrew in 1999 and in

2007, the biscuits and bakery business was transferred to MBFSL through a slump sale. During 2013–2014, the company, pursuant to a business-reorganisation scheme, demerged its food supplements (sauces, spreads, and *namkeen*) division to a separate company named Cremica Food Industries Limited.

As a result, MBFSL now manufactures biscuits and bakery products that are marketed under Mrs. Bector’s Cremica and Mrs. Bector’s English Oven brands, respectively. MBFSL has six manufacturing locations, namely Phillaur, Tahliwal, Rajpura, Greater Noida, Mumbai, and Bengaluru. The company operates in consumer segment through its network of distributors and retailers, besides supplying to export markets and catering to institutional customers.

Key financial indicators (audited)

	FY2019	FY2020*
Operating Income (Rs. crore)	783.7	760.5
PAT (Rs. crore)	33.1	30.3
OPBDITA/OI (%)	12.0%	12.0%
PAT/OI (%)	4.2%	4.0%
Total Outside Liabilities/Tangible Net Worth (times)	0.95	0.77
Total Debt/OPBDITA (times)	0.55	0.41
Interest Coverage (times)	7.65	6.10

Source: MBFSL

*Provisional

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2021)				Chronology of Rating History for the past 3 years				
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore) as on 31 Mar 2020	Current Rating	Date & Rating in FY2020	Date & Rating in FY2018	Date & Rating in FY2017		
						28-Aug-2020	24 May 2019	21 Feb 2018	01 Dec 2016	21 Oct 2016
1	Term Loan	Long Term	187.0	112.46	[ICRA]A+ (Positive)	[ICRA]A+ (Positive)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	
2	Fund based Limits	Long Term	50.0	NA	[ICRA]A+ (Positive)	[ICRA]A+ (Positive)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	
3	Non-Fund based limits	Short term	13.5	NA	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	
4	Unallocated	Long term/short term	19.5	NA	[ICRA]A+ (Positive)/[ICRA]A1+	[ICRA]A+ (Positive)/[ICRA]A1+	[ICRA]A+ (Stable)/[ICRA]A1+	[ICRA]A+ (Stable)/[ICRA]A1+	[ICRA]A+ (Stable)/[ICRA]A1+	

Amount in Rs. crore

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	NA	NA	NA	187.0	[ICRA]A+ (Positive)
NA	Fund based Limits	NA	NA	NA	50.0	[ICRA]A+ (Positive)
NA	Non-Fund based limits	NA	NA	NA	13.5	[ICRA]A1+
NA	Unallocated	NA	NA	NA	19.5	[ICRA]A+ (Positive)/ [ICRA]A1+

Source: MBFSL

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Bakebest Foods Private Limited	100.00%	Full Consolidation
Mrs. Bector's English Oven Limited	100.00%	Full Consolidation
Cremica Agro Foods Limited	44.95%	Equity Method

Source: Mrs. Bector's Food Specialities Ltd

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