March 30, 2021

# Tasty Bite Eatables Limited: Long-term rating upgraded, short-term rating reaffirmed; rated amount enhanced

### Summary of rating action

| Instrument* | Previous Rated Amount (Rs. crore) | Current Rated Amount (Rs. crore) | Rating Action |
|---|---|---|---|
| Long-term – Fund Based / Cash Credit (Working Capital Facilities) | 20.00 | 75.00 | [ICRA]A+(Stable); Upgraded from [ICRA]A(Stable) |
| Short-term – Non Fund Based Facilities | 2.00 | 2.00 | [ICRA]A1; Reaffirmed |
| Total | **22.00** | **77.00** | |

**Instrument details are provided in Annexure-1*

## Rationale

The upgrade of the long-term rating takes into consideration the continued support and strong parentage of Tasty Bite Eatables Limited (TBEL or the company) by being a part of the Mars Group (Mars) spearheaded by Mars, Incorporated. TBEL continues to enjoy operational benefits as majority of its sales is routed through group companies. ICRA notes that Mars Group has extended financial support to TBEL in the form of external commercial borrowings in the year FY2021 for the capital expenditure plan being undertaken by the company presently, which is expected to boost the production capability of TBEL. The ratings continue to factor in the established distribution network of the Tasty Bite brand in the USA characterized by strong relationships with established retailers and distributors. ICRA also takes note of TBEL's sustainable business model through product innovation, and technological barriers for the niche products supplied to leading brands in the domestic market providing sufficient revenue visibility to the company. TBEL continues to report strong capital structure and coverage indicators driven by comfortable profitability levels, notwithstanding the pandemic-related disruptions caused in H1FY2021. The company over the last few years has exhibited steady revenue growth in its exports as well as domestic segments, with a wide product profile offering significant diversification to its product portfolio.

The ratings, however, continue to remain constrained by TBEL's comparatively moderate scale of operations in the intensely competitive processed foods industry, which is dominated by large players, especially in matured markets such as the USA. The company also continues to demonstrate high customer concentration risk with ~65% revenues generated from exports; though, increasing share of domestic revenues provides some cushion. TBEL also stands exposed to foreign exchange fluctuations; however, judicious hedging practices undertaken by the company provide some comfort against the fluctuations in foreign exchange to an extent. Furthermore, the company is presently undertaking significant capital expenditure towards modernization and expansion of its production facility, commensurate returns from which will remain critical from the credit perspective.

The Stable outlook on the [ICRA]A+ rating reflects ICRA's opinion that the company will continue to benefit from the extensive experience of its promoters in the processed foods space, and the established track record of its operations. The support provided by the Mars Group in the form of volume offtake and funding for the capital expenditure is expected to facilitate future growth of the company.

## Key rating drivers and their description

### Credit strengths

**Strong parentage as well as operational benefits by virtue of being a part of Mars group –** TBEL is a part of the Mars Group spearheaded by Mars, Incorporated. The company continues to enjoy financial and operational benefits by virtue of being a part of Mars Group. A considerable portion of company's exports is made to the parent company, providing sufficient revenue visibility to TBEL. Furthermore, financial support extended by the Mars Group in the form of funding for the capital expenditure, is expected to ensure seamless execution of planned capital expenditure activities aimed at expanding the revenue base, going forward. Associating with an established group like Mars also helps TBEL in acquiring new clients in the domestic market.

**Established distribution network of the Tasty Bite brand in the USA characterized by strong relationships with established retailers and distributors -** On the back of its strong relationships with established retailers and distributors, TBEL enjoys a wide distribution network of the Tasty Bite brand in the USA, one of the major markets catered by the company. The distribution network is further strengthened with the company's acquisition by Mars, Incorporated in 2017. The acquisition has particularly been beneficial to the expansion plans of TBEL in Australia, as Mars Food Australia, the Australian subsidiary of Mars, supports TBEL in expanding its reach in the continent. Furthermore, Mars' well-established network in the US and European markets will help TBEL in increasing its sales in these markets.

**Sustainable business model through product innovation, technological barriers for the niche products supplied to leading brands in the domestic market** - Product innovation remains an important aspect of TBEL's core business model, resulting into continuous addition of new products to its product portfolio. Furthermore, technological barriers for the niche products supplied to leading Quick Service Restaurants (QSR) in the domestic market, results in limited competition in the domestic market for the company. Launch of premium products in the exports segment is expected to further strengthen the profitability of TBEL going forward.

**Strong capital structure and coverage indicators driven by comfortable profitability levels -** TBEL continues to exhibit strong interest and debt coverage indicators (interest coverage of 20.0 times and DSCR of 5.6 times in FY2020). Moreover, TBEL has witnessed Y-o-Y increase in its cash accruals over the past few years, with comfortable cash accrual position demonstrated in FY2020. The company continues to exhibit sufficient liquidity buffer and depicts a comfortable capital structure and positive retained cash flows on yearly level, over the period under study. It also benefits from lower cost of borrowings, especially for the ECBs, which positively reflects in healthy net profitability of 9.0% in FY2020.

**Steady revenue growth (in exports as well as domestic segments) over the last few years; wide product profile -** TBEL has exhibited steady revenue growth over the last few years, both in exports as well as domestic sales on account of increasing demand for natural and convenience food. The company focuses on offering processed food with organic ingredients to its customers, which is gaining wide acceptability in the international market

## Credit challenges

**Comparatively moderate scale of operations in the intensely competitive processed foods industry dominated by large players (especially in mature markets such as USA) -** TBEL operates at a comparatively moderate scale in the intensely competitive processed foods industry dominated by large players. The competitive intensity is higher for matured markets such as the USA, which is one of the key markets catered to by TBEL. However, company's future expansion plans along with operational leverage from collaborating with Mars is expected to support the ramping up of the scale of operations and improve market position over the medium term.

**High concentration risk with ~65% revenues generated from exports; though increasing share of domestic revenues provides cushion -** TBEL faces high client concentration risk with ~65% revenues generated through exports. However, increasing share of domestic revenues (~26% YoY growth in FY2020 in frozen formed foods and specialty sauces) in TBEL's revenue mix provides some cushion against the said risk. Established relations of the holding company with the retailers and distributors in USA also provides some comfort through offering revenue visibility to TBEL.

**Company's operations remain exposed to foreign exchange fluctuations** - TBEL has availed multiple borrowings in foreign currency for its capital expenditure activities. Although these low-cost borrowings boost company's net margins, they also expose the company's margins to fluctuations in foreign exchange. However, export revenues provide a natural hedge against such fluctuations. The company also hedges ~90% of its net forex exposure to mitigate forex risks.

**Commensurate returns from the significant capital expenditure currently undertaken remain critical from the credit perspective** – TBEL is presently undertaking sizeable capital expenditure towards modernization and expansion of its production facility. Although the said capital expenditure is expected to expand the revenue base and aid improvement in profitability driven by economies of scale, commensurate returns from the significant capital expenditure remain critical from the credit perspective. Any lack of commensurate returns or deferment in the execution of capital expenditure may impact cashflows of the company. However, parental backing in the form of ECB and healthy accruals position of the company are expected to provide comfort towards seamless execution of the said capital expenditure.

## Liquidity position: Adequate

TBEL continues to demonstrate **adequate** liquidity position on the back of healthy accrual position and buffer from the undrawn working capital limits. The working capital utilization of TBEL has remained moderate at ~63% of sanctioned limits during the 14-month period ending February 2021, providing sufficient cushion. The company had cash and liquid equivalents of Rs. 13.0 crore as on September 30, 2020. TBEL is planning to undertake sizeable capital expenditure towards capacity expansion and modernization over next three fiscals, which will be funded through a mixture of internal accruals, and borrowings in the form of ECB. The company has moderate debt repayment obligations lined up over the medium term; though, healthy cash accrual position on back of comfortable profitability metrics is expected to facilitate debt repayment going forward.

### Rating sensitivities

**Positive factors –** The ratings could be upgraded if the entity shows significant improvement in revenues as well as profitability on a sustained basis, leading to improvement in its liquidity profile. Strengthening of business and/or financial linkages between the parent company and the entity could also warrant a rating upgrade.

**Negative factors –** The ratings could be downgraded in case of weakening in the credit profile, or if the company undertakes any major debt funded capital expenditure leading to increase in Total Debt/OPBITDA of more than 2.3 times. Weakening of the credit profile of the parent company or weakening of business and/or financial linkages between the parent company and the entity could also warrant a rating downgrade.

### Analytical approach

| Analytical Approach | Comments |
|---|---|
| **Applicable Rating Methodologies** | Corporate Credit Rating Methodology<br>Rating Methodology for the Entities in the Fast Moving Consumer Goods (FMCG) Industry<br>Impact of Parent or Group Support on an Issuer's Credit Rating |
| **Parent/Group Support** | Parent/Group Company: Mars, Inc.<br>The ratings are based on implicit support from Mars, Inc., as TEBL and Mars, Inc. both operate in the business of food products with significant business linkages between the two entities in terms of product offerings and geographies covered. |
| **Consolidation/Standalone** | The ratings are based on standalone financial statements of Tasty Bite Eatables Limited |

## About the company

Tasty Bite Eatables Limited is a manufacturer of ethnic and natural vegetarian packaged and ready to eat/serve (RTE) food products, sold under the "Tasty Bite" brand in the United States of America, Australia, the United Kingdom, Germany and Canada. The company also offers a range of unique products such as sauces, meals and frozen food in the domestic market through its business segment, Tasty Bite Food Service (TFS). TBEL is a part of the Preferred Brands Group of companies, acquired by the latter in 1999. The group's holding company is Preferred Brands International Inc (PBI), located in Stamford, Connecticut USA, which in turn is 100% owned by Mars Inc., USA. PBI is in the business of marketing and resale of ready to eat / serve food under the "Tasty Bite" brand in USA whereas associate Mars companies are engaged in the business of marketing and resale of ready to eat / serve food products in Australia, the United Kingdom, Germany and Canada.

TBEL is listed on the Bombay Stock Exchange (BSE) and National Stock Exchange (NSE). The company has its manufacturing facility situated at Bhandgaon, Maharashtra, and is currently in the process of capacity expansion and modernizing the manufacturing facility.

## Key financial indicators (audited)

| TBEL | FY2019 Audited | FY2020 Audited | H1FY2021 Unaudited |
|---|---|---|---|
| Operating Income (Rs. crore) | 354.2 | 451.4 | 153.6 |
| PAT (Rs. crore) | 30.1 | 40.9 | 12.0 |
| OPBDIT/OI (%) | 19.2% | 15.6% | 15.7% |
| PAT/OI (%) | 8.5% | 9.1% | 7.8% |
| Total Outside Liabilities/Tangible Net Worth (times) | 0.7 | 0.8 | 0.7 |
| Total Debt/OPBDIT (times) | 0.6 | 1.0 | 1.6 |
| Interest Coverage (times) | 15.7 | 20.0 | 27.1 |

*PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation*
*Source: Company, ICRA research*

## 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 as of Dec 31, 2020 (Rs. crore) | Date & Rating in FY2021 | Date & Rating in FY2020 | Date & Rating in FY2019 | Date & Rating in FY2018 |
| | | | | | Mar 30, 2021 | Mar 11, 2020 | Dec 28, 2018 | Sep 29, 2017 |
| **1** | Cash credit | Long-term | 75.0 | NA | [ICRA]A+ (Stable) | [ICRA]A (Stable) | [ICRA]A (Stable) | [ICRA]A- (Stable) |
| **2** | Non Fund Based facilities (Bank Guarantee) | Short-term | 2.0 | NA | [ICRA]A1 | [ICRA]A1 | - | [ICRA]A1 |
| **3** | Interchangeable facilities | Long-Term/ Short-term | - | - | - | - | [ICRA]A (Stable) / [ICRA]A1 | - |

## 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 | Cash Credit | NA | NA | NA | 75.00 | [ICRA]A+(Stable) |
| NA | Bank Guarantee | NA | NA | NA | 2.00 | [ICRA]A1 |

**Source:** Company

## Annexure-2: List of entities considered for consolidated analysis – Not Applicable

ANALYST CONTACTS

**K. Ravichandran**
+91 44 4596 4301
ravichandran@icraindia.com

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

**Rupa Pandey**
+91 22 6114 3456
rupa.pandey@icraindia.com

**Yashowardhan Swami**
+91 20 6606 9923
yashowardhan.swami@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

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

## 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.

For more information, visit www.icra.in

## ICRA Limited

### Registered Office

1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001
Tel: +91 11 23357940-50

### Branches