August 12, 2021

Mrs. Bectors Food Specialities Limited: Long-term rating upgraded to [ICRA]AA- (Stable); Short-term rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term fund-based bank facilities	237.0	161.0	[ICRA]AA- (Stable); upgraded from [ICRA]A+(Positive)
Short-term fund-based bank facilities	-	15.0	[ICRA]A1+ reaffirmed
Short-term non-fund-based bank facilities	13.5	13.5	[ICRA]A1+ reaffirmed
Long-term/Short-term Unallocated	19.5	80.5	[ICRA]AA- (Stable), upgraded from [ICRA]A+(Positive)/ [ICRA]A1+ reaffirmed
Total Bank Facilities	**270.00**	**270.00**	

**Instrument details are provided in Annexure-1*

Rationale

The rating upgrade factors in the steady improvement in the business and financial risk profile of Mrs. Bectors Food Specialities Limited (MBFSL), supported by healthy and profitable ramp up of its enhanced capacities, increased focus on premium products and scale-up of operations in new geographies (Mumbai and Bengaluru). Despite the pandemic-led operational disruptions and demand disruptions in the institutional bakery segment, which affected sales to its Quick Service Restaurant (QSR) customers, the company reported a strong performance in FY2021 led by biscuits and retail bakery divisions, with a growth of 16% in its operating income and operating margin of 16% vis-à-vis previous 3-year average of 12%. ICRA expects growth in the institutional bakery segment to be relatively better in FY2022 vis-à-vis last year and expects other segments also to continue with healthy growth in the upcoming fiscal, with commissioning of the new production lines (ongoing capex at Rajpura, likely to be completed by Q3 FY2022) and ramp-up of the new geographies.

A sustained growth in revenues together with healthy profitability, inherently low working capital requirements of the business and phased capacity expansions have supported the company's cash flows over the years, keeping its reliance on debt limited. Together with sustained accretion to reserves, this has resulted in a sustained improvement in the company's capitalisation and coverage metrics over the past few years. The ratings also continue to draw strength from the company's well-recognised brands in northern India, its strong distribution network, and its established relationships with reputed institutional clients for biscuit exports, sales of buns and private labelling. The ratings also continue to factor in the extensive experience of MBFSL's promoters in the food-processing industry, the company's regionally diversified manufacturing base across five states and favourable growth prospects for the industry.

The ratings, however, remain constrained by exposure to stiff competition from branded as well as local/ regional players, vulnerability of the company's profitability to adverse movements in raw material prices, and high quality/ reputational risks given the presence in the food industry. Further, despite the efforts made in recent years to regionally diversify its presence, the company continues to derive most of its revenues from the northern Indian states, exposing it to concentration risk.

The Stable outlook reflects ICRA's expectation that MBFSL will maintain a comfortable capital structure and healthy debt coverage metrics, despite regular investments towards capacity expansion. This is expected to be supported by profitable ramp up of its enhanced capacities, surplus cash flow generation capacity of the business, and a phased capex approach that the company follows.

Key rating drivers and their description

Credit strengths

Healthy operational profile, characterised by well-recognised brands, diversified business presence and established relationships with renowned clients - Mrs. Bectors' 'English Oven' and 'Cremica' brands are well-recognised in the organised bakery/biscuits industry and enjoy a strong presence and customer acceptance, especially in northern India. Further, the company has a diversified product portfolio in bakery and biscuit segments, with a strong distribution reach and network of distributors, super stockists and retail outlets across the country. The company has also established a diversified manufacturing footprint, with six units in five states. In addition, MBFSL manufactures biscuits under private labelling for Mondelez and other international clients, and supplies buns to institutional clients like McDonalds, KFC, Burger King, etc. Established relationships with a reputed client base ensure regular business, thereby providing steady revenues.

Strong financial risk profile - Despite consistent capex undertaken towards capacity expansion, MBFSL's reliance on term debt has remained limited over the years, supported by healthy cash flows generated from operations. Additionally, the working capital intensity of the business remains low inherently, resulting in low working capital borrowings. Together with consistent accretion to net worth, this translates into a comfortable capital structure, as reflected by gearing of 0.30 times as on March 31, 2021 and Debt/ OPBDITA of 0.93 times in FY2021. Further, the company also raised an equity of Rs. 40.5 crore through an Initial Public Offering (IPO) in FY2021, which is proposed to be used for part funding the company's ongoing expansion plans. Besides supporting liquidity and capital structure, IPO enabled the company to successfully provide an exit opportunity to its private equity investors. Coverage indicators remain healthy as indicated by interest coverage of 14.82 times, and DSCR of 3.5 times in FY2021.

Favourable demand outlook for the packed foods industry - Given the factors such as a large population base, increasing spending ability, increased consumer consciousness of hygiene and cleanliness, and shift in preference towards branded consumption, the packed foods industry is expected to grow at a healthy pace in the future. MBFSL is expected to benefit from this growth as it operates in the premium biscuits and breads segment.

Extensive experience of promoters– MBFSL's promoters, Mr. Anoop Bector and family members, have more than two decades of experience in the biscuits and bakery industry. Over the years, Mrs. Bector's English Oven and Mrs. Bector's Cremica have become established brands in the business and enjoy good brand recognition and customer acceptance in northern India.

Credit challenges

Geographic concentration of revenues in northern states - The company generates 80-85% of its revenues from North Indian states like Punjab, J&K, Haryana, Uttar Pradesh, etc, for its biscuits segment and around 85% of its revenues from Delhi NCR for its retail bakery segment. However, the company is gradually expanding its manufacturing network across the country to strengthen its presence in other regions.

Intense competition from local players as well as other established players – In the breads segment, the company faces stiff competition from local/regional as well as national players as the market remains a fragmented one. In the biscuits segment as well, the competitive intensity remains high as the company faces stiff competition from established brands like Britannia, Anmol Industries, Mondelez, Parle and ITC, to name a few, given its focus on the mid-premium and premium categories.

Vulnerability of profitability to raw material price increases – Given the intense competition in the segments in which the company operates, it is not possible to immediately and fully pass on any cost increases. As a result, MBFSL's operating profitability remains vulnerable to major changes in raw material prices. This was witnessed in recent months wherein a sharp increase in prices of palm oil (one of the key raw material used in manufacturing biscuits) affected its operating margins.

High quality and reputation risks - Being in the food industry, risks regarding quality and reputation remain high.

Liquidity position: Strong

MBFSL's liquidity profile is strong aided by healthy cash flow generation from operations, low debt repayment obligations, and phased capex implementation plans, which are expected to keep the company's reliance on external funding sources low. This is corroborated by healthy liquid balances (of over Rs. 40.9 crore as on March 31, 2021) and sparsely utilised working capital limits (more than Rs. 40-crore cushion in fund-based working capital limits in March 2021). It is noted that the company raised fresh equity of Rs. 40.5 crore in December 2020 from its IPO for expansion of its Rajpura facility. As on March 31, 2021, the IPO proceeds remained unutilised and were held as bank deposits.

Rating sensitivities

Positive factors – The ratings can be upgraded if the company continues to demonstrate healthy growth in its operating income with expansion into new geographies, while maintaining its profitability and leverage/ coverage metrics. Specific metric which would be considered for an upgrade includes ROCE of more than 20% on a sustained basis.

Negative factors – The ratings can be downgraded if there is a material decline in OI or profit margins, or a sizeable debt-funded capex, which impacts its leverage and coverage indicators. Specific metrics to include debt/OPBITDA of more than 1.5 times on a sustained basis

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, 2021, the company had two subsidiaries (Bakebest Foods Private Limited and Mrs. Bectors English Oven Limited) and an associate (Cremica Agro Foods Limited) that are enlisted in Annexure-2.

About the company

Incorporated in 1995, MBFSL manufactures biscuits and bakery products that are marketed under Mrs. Bector's Cremica and Mrs. Bector's English Oven brands, respectively. MBFSL has manufacturing units at six locations, namely Phillaur (Punjab), Tahliwal (Himachal Pradesh), Rajpura (Punjab), Greater Noida (Uttar Pradesh), Mumbai, and Bengaluru. The company operates in the consumer segment through its network of distributors and retailers, besides supplying to export markets and catering to institutional customers.

MBFSL was originally established as a joint venture (JV) with Quaker Oats for supplying condiments such as ketchup and sauces to McDonalds. The JV partner withdrew in 1999 and in 2007, the biscuits and bakery businesses were 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. In December 2020, the company got listed on the Bombay Stock Exchange and the National Stock Exchange.

Key financial indicators (audited)

MBFSL Consolidated	FY2020	FY2021
Operating Income (Rs. crore)	762.1	880.7
PAT (Rs. crore)	30.3	72.2
OPBDIT/OI (%)	12.2%	16.0%
PAT/OI (%)	4.0%	8.2%
Total Outside Liabilities/Tangible Net Worth (times)	0.8	0.6
Total Debt/OPBDIT (times)	1.41	0.93
Interest Coverage (times)	6.2	14.8

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore) as on 31 Mar 2021	Current Rating	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
					Aug 12, 2021	Aug 28, 2020	May 24, 2019	-
1	Fund-based bank facilities	Long term	161.0	161.0	[ICRA]AA- (Stable)	[ICRA]A+ (Positive)	[ICRA]A+ (Positive)	No rating change ([ICRA]A+ (Stable))
2	Fund-based bank facilities	Short term	15.0	15.0	[ICRA]A1+	-	-	-
3	Non-fund-based bank facilities	Short term	13.5	13.5	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	No rating change ([ICRA]A1+)
4	Unallocated	Long term/ short term	80.5	-	[ICRA]AA- (Stable)/[ICRA] A1+	[ICRA]A+ (Positive)/ [ICRA]A1+	[ICRA]A+ (Positive)/ [ICRA]A1+	No rating change ([ICRA]A+ (Stable)/ [ICRA]A1+)

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term Fund-based – Bank Facilities	Simple
Short -term – Fund Based Bank Facilities	Simple
Short -term –Non-Fund Based Bank Facilities	Very Simple
Unallocated	Not Applicable

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, is available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN No/Banker Name	Instrument Name	Date of Issuance **	Coupon Rate**	Maturity	Amount Rated (Rs. Crore)	Current Rating and Outlook
HDFC Bank	Term Loan	-	-	FY2022-28	62.50	[ICRA]AA-(Stable)
ICICI Bank	Term Loan	-	-	FY2023-29	53.15	[ICRA]AA-(Stable)
ICICI Bank	Term Loan	-	-	NA	5.00	[ICRA]AA-(Stable)
ICICI Bank	Cash Credit	-	-	-	35.00	[ICRA]AA-(Stable)
HDFC Bank	Overdraft	-	-	-	10.00	[ICRA]A1+
HDFC Bank	Bank Guarantee	-	-	-	3.50	[ICRA]A1+
ICICI Bank	Letter of Credit	-	-	-	10.00	[ICRA]A1+
ICICI Bank	Export packing credit	-	-	-	5.00	[ICRA]A1+
NA*	Term Loan (Proposed)	-	-	NA	5.35	[ICRA]AA-(Stable)
NA	Short-term/long-term unallocated limits	-	-	-	80.5	[ICRA]AA-(Stable)/[ICRA]A1+

Source: *Company   *the loan is proposed and not allocated to any bank currently   **Details not available*

Annexure-2: List of entities considered for consolidated analysis

Company Name	MBFSL Ownership	Consolidation Approach
Bakebest Foods Private Limited	100%	Full Consolidation
Mrs. Bectors English Oven Limited	100%	Full Consolidation
Cremica Agro Foods Limited	43.09%	Equity Method

Source: *MBFSL annual report FY2021*

Note: *ICRA has taken a consolidated view of the parent (MBFSL), its subsidiaries and associates while assigning the ratings.*

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