April 06, 2023

Saj Food Products Pvt. Ltd.: Ratings upgraded to [ICRA]AA-(Stable)/[ICRA]A1+

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Term loan	50.0	90.0	[ICRA]AA-(Stable) upgraded from [ICRA]A+(Stable)
Long-term/ Short -term – Unallocated	45.0	5.0	[ICRA]AA-(Stable)/[ICRA]A1+ upgraded from [ICRA]A+(Stable)/[ICRA]A1
Total	**95.0**	**95.0**	

**Instrument details are provided in Annexure-I*

Rationale

The ratings upgrade considers a sharp increase in the scale of operations of Saj Food Products Pvt. Ltd. (SFPPL) estimated in FY2023, driven by higher volumes and better realisations. The company's operating profit margins are also expected to be ~10-11% in FY2023 from ~7% reported in FY2022. ICRA notes that SFPPL has increased prices by ~25% in the last one year starting from Q4 FY2022, which led to an improvement in the operating margin, in spite of a sharp rise in the prices of raw materials during the year. ICRA notes that the Bangalore plant has commenced operations in March 2022, and the Assam plant is expected to start operations in April 2024. With the stabilisation of the new plants, SFPPL's scale is expected to improve further. With geographic diversification of plants across the country, sales diversification is also expected to increase. Further, it will also lead to lower transportation costs, supporting margins. The ratings also consider SFPPL's conservative capital structure, strong debt coverage metrics and low working capital intensity of operations. The company's liquidity position remains strong with healthy cash accruals and large cash and investment balances. Consequently, low debt levels and increased profitability led to improved debt metrics. Going forward, debt protection metrics are expected to remain strong even in case of an adverse cost-price movement. The ratings continue to draw comfort from the company's established track record in the biscuit manufacturing business, strong market position of its brand (Bisk Farm), particularly in eastern and north-eastern India, which is backed by the Group's experience of around four decades in the distribution of FMCG and pharmaceutical products, and a favourable demand outlook of the biscuit industry.

The ratings, however, take into consideration the high sensitivity of profitability of biscuit manufacturers, including SFPPL, to fluctuations in input costs (raw material prices, packaging materials, fuel, etc.) and intense competition from the unorganised players as well as other established peers, which are likely to keep its margins under check. The company also remains exposed to geographical concentration risks as the major portion of its revenue is derived from West Bengal and the North East, notwithstanding some improvement witnessed in the recent past. SFPPL is in the process of setting up a plant in Guwahati, Assam. ICRA notes that the company would remain exposed to the project execution and stabilisation risks associated with the ongoing capacity expansion though such risks are mitigated to some extent by the management's experience in successfully executing such projects in the past, including the recently commissioned Bangalore plant.

The Stable outlook reflects ICRA's opinion that SFPPL will maintain a conservative capital structure and healthy debt protection metrics, despite regular investments towards capacity expansion.

Key rating drivers and their description

Credit strengths

Steady increase in scale of operations – The company has been in the process of expanding its capacity at regular interval. It commissioned a new plant in Nagpur, Maharashtra in January 2018 and another in Bangalore in March 2022. SFPPL is also setting up a plant in Guwahati, which is expected to start operations in April 2024. Consequently, the company's production volumes increased consistently at a CAGR of ~8.5% during the last five years. The company has presence in ~22-23 states in

India, though its major markets remain West Bengal and the North East, which together accounted for around 71% of its revenue in FY2022 and 9M FY2023, implying its exposure to geographical concentration risks. However, SFPPL's scale of operations and geographical diversification are likely to improve further, aided by stabilisation of operations at the Bangalore plant and commencement of operations in Assam, going forward.

Established track record in biscuit manufacturing and strong market position – The Group has been involved in biscuit-manufacturing business for more than two decades. Over the years, the company has included other bakery products like cakes, cookies, pastries, bread rusks, savouries, croissants, extruded snacks, wafers as well as Indian snacks in its product portfolio, though biscuit remains the mainstay of SFPPL's business. Its Bisk Farm brand has a strong presence in the eastern and north-eastern states. Prior experience of the promoters in the distribution of FMCG and pharmaceutical products of reputed brands for around four decades helped it in successfully penetrating the bakery market and building the brand. SFPPL sells its products through many channel partners including 147 super stockists, around 1,040 distributors and around 2.5 lakh dealers/retailers spread across the country.

Financial profile characterised by conservative capital structure and strong debt coverage metrics – The company's limited borrowing vis-a-vis its healthy net worth led to a conservative capital structure, as reflected by a gearing of 0.1 times as on March 31, 2022. Going forward, despite an increase in debt on account of the ongoing capital expenditure, the capital structure is expected to remain healthy. Low debt levels along with steady operating profits further strengthened SFPPL's debt coverage metrics. Its interest coverage, net cash accrual relative to the total debt and total debt relative to OPBDITA in FY2022 stood at 273 times, 206% and 0.4 times, respectively. In FY2023, the profitability improved further with significant price hikes, and its cash accruals are expected to remain healthy. Thus, its liquidity position and the debt coverage metrics are expected to remain comfortable, even in case of an adverse cost price movement.

Low working capital intensive nature of business supports liquidity – The company's sales are made against advance payment basis. Its raw material inventory holding period is low because of tie-ups with local suppliers. However, moderate level of finished goods and packaging material stocks are maintained to ensure smooth operation and distribution. A nominal receivable, limited inventory coupled with moderate credit availed from suppliers supported SFPPL's liquidity and kept its net working capital relative to the operating income at a very low or negative level in the last few years.

Credit challenges

Susceptibility to fluctuation in input prices – The raw materials required for manufacturing biscuits are wheat flour, sugar, edible refined hydrogenated vegetable oil, skimmed milk powder (SMP), flavours, preservatives etc. The company also consumes a significant volume of packaging materials and needs fuels like furnace oil and LPG. The prices of flour, sugar and oil are highly dependent on both agro-climatic conditions and Government policies and thus are subject to considerable volatility. Prices of packaging materials and fuels remain linked to crude oil prices, which also exhibit significant volatility, thus impacting SFPPL's margins. In the last 1-2 years, prices of key raw materials as well as packaging materials have witnessed a sharp increase, however, the impact of the same has been mitigated owing to substantial price hikes made by the company.

Intense competition from unorganised and established players likely to keep margins under check – The company remains exposed to stiff price-based competition from other established players and various small biscuit manufacturers as a significant portion of its revenue is generated from the highly price-sensitive sub-brands. Hence, SFPPL's limited pricing flexibility is likely to keep its margins under check.

Exposure to project execution as well as stabilisation risks related to the ongoing capital expenditure programme – The company is setting up a new plant in Guwahati, Assam with a proposed capacity of 78,000 tonnes per annum (TPA). The cost of the project has been estimated at Rs. 200 crore, which is expected to be funded through a debt to equity mix of 2:1. The commercial operation is likely to start from March 2024. Assam is already a key market for SFPPL, contributing ~25% to the total revenues. This demand is currently being catered to by the Siliguri plants, which entail significant transportation costs. Thus, with the commissioning of the Assam plant, it will increase the company's geographical reach, reduce transportation costs, and increase brand recognition. The company's ability to commission the project within the budgeted cost and estimated timeframe, stabilise facilities and ramp up sales within a short gestation period, post commissioning, would remain important for the success of its capital expenditure programme.

Liquidity position: Strong

SFPPL's liquidity position remains strong with healthy cash accruals, low debt repayment obligations and large cash and investment balances. The company has set up the Bangalore unit at a cost of Rs. 60 crore and is setting up a manufacturing unit in Assam at a cost of Rs. 200 crore. Despite the capex, free cash flows remain comfortable. SFPPL has surrendered its working capital limit. However, liquidity is supported by a large cash and investment balance of Rs. 165-170 crore as on date. The company is likely to incur sizeable capex in the near-to-medium term for setting up new plants in Assam. However, due to healthy cash flow from operations vis-a-vis its scheduled debt repayment, the company's liquidity is likely to remain strong for meeting the internal funding requirement of the capex.

Rating sensitivities

Positive factors – ICRA may upgrade the long-term rating if company is able to geographically diversify its operations and demonstrate a significant improvement in its scale of operations and cash accruals on a sustained basis.

Negative factors – Any significant deterioration in profit margin, leading to weakening of cash generation along with significantly higher-than-anticipated debt-funded capital expenditure, impacting the liquidity position, may result in ratings downgrade. Specific triggers for ratings downgrade will be RoCE below 20% on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Not Applicable
Consolidation/Standalone	The ratings are based on the standalone financials of the company.

About the company

Saj Food Products Private Limited (SFPPL), incorporated in 2000, manufactures biscuits and sells them under the Bisk Farm brand. SFPPL is a part of the Kolkata-based Aparna Group, which was promoted by Late Mr. K. D. Paul. It is an established distribution house for FMCG as well as pharmaceutical products in eastern India for around four decades. Over the years, SFPPL increased its product offerings and introduced other food products such as cakes, cookies, pastries, bread rusks, savouries, croissants, extruded snacks, wafers as well as Indian snacks. The company sells Indian snacks products under the brand, Indiaah. SFPPL has four manufacturing units at Uluberia, Sankrail, and Siliguri (two units) in West Bengal, one in Nagpur, Maharashtra, and another one in Bangalore, which started operations in March 2022. The company's combined production capacity stood at ~2,42,225 TPA.

Key financial indicators (audited)

SFPPL	FY2021	FY2022	9M FY2023
Operating income	1251.4	1430.8	1290.3
PAT	104.4	55.9	106.8
OPBDIT/OI	12.7%	6.9%	10.1%
PAT/OI	8.3%	3.9%	8.3%
Total outside liabilities/Tangible net worth (times)	0.3	0.4	
Total debt/OPBDIT (times)	0.1	0.4	
Interest coverage (times)	126.9	273.0	59.3

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2024)				Chronology of rating history for the past 3 years			
		Type	Amount rated (Rs. crore)	Amount outstanding as of Mar 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022		Date & rating in FY2021
					Apr 06, 2023	-	Mar 31, 2022	Apr 05, 2021	-
1	**Term loans**	Long term	90.0	36.0	**[ICRA]AA- (Stable)**	-	[ICRA]A+ (Stable)	[ICRA]A (Positive)	-
2	**unallocated**	Long term and short term	5.0	-	**[ICRA]AA- (Stable)/ [ICRA]A1+**	-	[ICRA]A+ (Stable)/ [ICRA]A1	-	-
3	**Cash Credit**	Long term				-		[ICRA]A (Positive)	-
4	**Bank Guarantee**	Short term				-		[ICRA]A1	-
5	**Letter of Credit**	Short term				-		[ICRA]A1	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based – Term Loan	Simple
Long-term/ Short -term – 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 are available on ICRA's website: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Term Loan-I**	FY2020	1 year MCLR	FY2028	38.0	[ICRA]AA-(Stable)
NA	**Term Loan-II***	FY2023	1 year MCLR	FY2029	52.0	[ICRA]AA-(Stable)
NA	**Unallocated**	`	-	-	5.0	[ICRA]AA-(Stable)/[ICRA]A1+

**Not availed yet; Source: Company*

Please click here to view details of lender-wise facilities rated by ICRA.

Annexure II: List of entities considered for consolidated analysis

Not applicable

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About ICRA Limited:

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