

Press Release
Moreish Foods Limited

February 28, 2022



Rating Assigned

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	38.00	ACUITE BBB- Stable Assigned	-
Total Outstanding Quantum (Rs. Cr)	38.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has assigned the long-term rating of '**ACUITE BBB-**' (read as **ACUITE Triple B minus**) to the Rs. 38.00 Cr bank facilities of Moreish Foods Limited (MFL). The outlook is '**Stable**'.

The rating factors in the steady improvement in the business and financial risk profile of Moreish Food Limited (MFL), supported by steady ramp up in the scale of operations backed by enhanced capacities and penetration into new markets. It also reflects its average financial risk profile characterized by comfortable debt protection metrics and efficient working capital management. These rating strengths are partially offset by its exposure to risks related to volatility in raw material prices, intense competition.

About the Company

Incorporated in 1998, Moreish Foods Limited (MFL) is promoted by Mr. Narendra Kumar of Ranchi, Jharkhand. The company is engaged in manufacturing and selling of bakery products such as bread, cakes and cookies under its own brand name Moreish. MFL has five manufacturing units at Ranchi, Patna, Asansol, Howrah and Bhubaneswar. The company operates in consumer segment through its network of distributors and retailers, besides catering to institutional customers. It has tied up with Big Basket, Easyday, Grofers, Spencers, Reliance Retail, Big Bazar, More and other prominent retail stores across Eastern India besides institutional tie-ups with Hospitals, Corporate Clubs, Indian Railways, etc.

Analytical Approach

Acuite has taken a standalone view of the business and financial risk profile of MFL to arrive at the rating.

Key Rating Drivers

Strengths

- **Steady scale of operations supported by improvement in profitability margins**

MFL has achieved revenues of Rs.106.81 Cr in 2021 as compared to revenues of Rs.92.99 Cr in FY2020. The turnover of the company has been growing at a CAGR of more than 11.25 per cent from FY17 to FY21. The company has achieved revenues of around Rs.85.26 Cr till

December 2021 (Provisional). The growth in top line was on account of further expansion of the

Ranchi unit and increase in demand for packaged food products during the lockdown. Also, due to improved scenario due to supply-side reforms in the bakery industry, overall ramping up of capacities as envisaged, will remain a key monitoring factor.

The profitability margins of the company have improved with operating margin of 7.37 per cent in FY21 as compared to 5.83 per cent in the previous year, backed by better economies of scale. The PAT margins stood at 1.99 per cent as on FY2021 as against 1.17 per cent as on FY2020. The improvement in profitability margins have translated into healthy RoCE levels for the company of about 13.82 per cent in FY2021 as against 12.41 per cent in FY2020. As the company has been undertaking sizeable capex for expansion of product profile and improving penetration in identified markets, there has been moderation in return metrics. Moreover, the return on capital employed (RoCE) is expected to remain range-bound. Going forward as well, the company is expected to witness steady revenue growth on the back of its distribution reach to retailers and continued relations with institutional clients. Moreover, the risk of perishable nature of inventory is mitigated due to its established brand presence in Eastern India.

- **Above Average financial risk profile**

The company's financial risk profile is marked by moderate network, moderate gearing and strong debt protection metrics. The tangible net worth of the company improved to Rs.22.01 Cr as on March 31, 2021 from Rs.13.97 Cr as on March 31, 2020 due to accretion of profits. Acuité has considered unsecured loans of Rs.6.75 Cr as on March 31, 2021, as quasi-equity as the management has undertaken to maintain the amount in the business over the medium term. Gearing of the company stood below unity at 0.79 times as on March 31, 2021 as against 1.68 times as on March 31, 2020. The Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood moderate at 1.38 times as on March 31, 2021 as against 2.56 times as on March 31, 2020. The debt protection metrics of the company is marked by Interest Coverage Ratio at 3.17 times as on March 31, 2021 and Debt Service Coverage Ratio at 1.19 times as on March 31, 2021. Net Cash Accruals/Total Debt (NCA/TD) stood low at 0.27 times as on March 31, 2021. Acuité believes that going forward, despite having debt funded capex plans, the financial risk profile of the company will remain moderate backed by steady accruals.

The company has undertaken a capex to expand its production capacity at Howrah, Ranchi and set up a new plant at Varanasi. The total cost of the project is Rs.35.75 Cr of which Rs.24.50 Cr would be funded through term loan and balance from promoters' sources. The company has incurred Rs.4.48 Cr till November 2021, which is funded from internal accruals. The financial closure is yet to be achieved, exposing it to significant funding risk. 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 Capex. Acuité believes that the timely completion of the project at the envisaged cost would be a key monitorable.

- **Efficient working capital management**

The working capital management of the company is efficient marked by low Gross Current Assets (GCA) of 57 days as on March 31, 2021 as compared to 64 days as on March 31, 2020. The debtor period is comfortable at 25 days as on March 31, 2021 as compared to 21 days as on March 31, 2020. Further, the inventory holding is also comfortable at 26 days as on March 31, 2021 as compared to 34 days as on March 31, 2020 owing to perishable nature of the inventory. Acuité believes that the working capital operations of the firm will remain comfortable as evident from efficient collection mechanism, low inventory levels coupled with moderate credit availed from suppliers and advances from institutional customers over the medium term.

Weaknesses

- **Susceptibility to fluctuation in input prices**

The raw materials required for manufacturing bread and bakery products are wheat flour, sugar, edible refined hydrogenated vegetable oil, skim milk powder (SMP), flavours, preservatives etc. The company also consumes a significant amount 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 MFL's margins.

- **Competition from local manufacturers and established players**

The industry is highly competitive with the presence of branded players like Britannia, ITC, Parle, Modern, Saj Food Products, 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.

Rating Sensitivities

- Significant growth in revenue and profitability margin
- Elongation of working capital cycle
- Reduction in working capital limits utilization
- Timely completion of the ongoing capex

Material covenants

None

Liquidity Position: Adequate

The company's liquidity is adequate marked by the net cash accruals which stood at Rs.4.65 Cr in March 31, 2021 as against long term debt repayment of Rs.3.50 Cr over the same period. The working capital management of the company is efficient as reflected by Gross Current Assets (GCA) of 57 days as on March 31, 2021, as compared to 64 days as on 31st March 2020. The unencumbered cash and bank balances of the company stood at Rs.0.09 crores as on March 31, 2021. However, the fund based limit remains highly utilized at 95 per cent over the six months ended January, 2022. The current ratio stood low at 0.75 times as on March 31, 2021 as compared to 0.78 times as on March 31, 2020. This liquidity constraint will persist, until there is significant improvement in the thin profit margin. The company has applied for Covid Loan of 2.73 Cr, and also availed moratorium. Expected net cash accruals of Rs 8-9 crores should be sufficient against term debt obligation of Rs 5-6 crores over the medium term. Going forward, Acuité believes that the surplus accruals will act as cushion to the liquidity of the company.

Outlook: Stable

Acuité believes that the outlook on the company will remain 'Stable' over the medium term on account of the long track record of operations, experienced management and sound business position. The outlook may be revised to 'Positive' in case the company registers healthy growth in revenues coupled with sustained improvement in operating margins and capital structure. Conversely, the outlook may be revised to 'Negative' in case of a decline in the company's revenues or profit margins, or in case of deterioration in the company's financial risk profile or or delay in completion of its project.

Other Factors affecting Rating

Not Applicable

Key Financials

Particulars	Unit	FY 21 (Actual)	FY 20 (Actual)
Operating Income	Rs. Cr.	106.81	92.99
PAT	Rs. Cr.	2.13	1.09
PAT Margin	(%)	1.99	1.17
Total Debt/Tangible Net Worth	Times	0.79	1.68
PBDIT/Interest	Times	3.17	2.28

Status of non-cooperation with previous CRA (if applicable)

Not Applicable

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Manufacturing Entities: <https://www.acuite.in/view-rating-criteria-59.htm>
- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument<https://www.acuite.in/view-rating-criteria-55.htm>**Rating History:**

Not Applicable

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Bandhan Bank	Not Applicable	Overdraft	Not Applicable	Not Applicable	Not Applicable	7.00	ACUITE BBB- Stable Assigned
Not Applicable	Not Applicable	Proposed Term Loan	Not Applicable	Not Applicable	Not Applicable	23.00	ACUITE BBB- Stable Assigned
Bandhan Bank	Not Applicable	Term Loan	01-04-2020	11.00	01-03-2026	5.00	ACUITE BBB- Stable Assigned
Bandhan Bank	Not Applicable	Term Loan	01-11-2019	10.75	01-04-2023	3.00	ACUITE BBB- Stable Assigned

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