

Press Release

Foods and Inns Limited (FIL)

17 October, 2017

Rating Reaffirmed and Assigned



Total Instruments Rated*	Rs.206.00 Cr
Long Term Rating	SMERA BBB-/Stable (Reaffirmed and Assigned)
Short Term Rating	SMERA A3 (Reaffirmed)

**Refer Annexure for details*

Rating Rationale

SMERA has reaffirmed the long term rating of '**SMERA BBB-**' (read as **SMERA triple B minus**) on the Rs.50.37 crore facilities and short term rating of '**SMERA A3**' (read as **SMERA A three**) on the Rs. 145.63 crore bank facilities of Foods and Inns Limited (FIL). SMERA has also assigned long term rating of '**SMERA BBB-**' (read as **SMERA triple B minus**) on the Rs. 10.00 crore bank facility and withdrawn the rating of '**SMERA BBB-**' (read as **SMERA triple B minus**) on the Rs. 3.00 crore bank facility with immediate effect as the company has repaid the term loan as certified by the banker. The outlook is '**Stable**'.

FIL, incorporated in 1967, is a Mumbai-based company engaged in the processing of fruit pulp, natural spray dried fruit/vegetable powder. The company has six manufacturing facilities, three at Chitoor, one at Valsad and two at Nashik (including one powder plant) with total 57,800,000 kg of fruit pulp extraction capacity.

List of key rating drivers and their detailed description

Strengths:

Established track record of operations and experienced management: FIL commenced operations in 1940. It has six manufacturing facilities spread across four states (fruit growing regions) and eight warehouses. The company was listed in 1970. The Chairman, Mr. Bhupendra Dalal has over four decades of experience in the aforementioned line of business. The company has been able to forge long lasting relationships and tie-ups with customers and suppliers. It has diversified its product range and packaging to be in with the market demand.

Modest scale of operations: FIL's revenues in FY2017 have been stagnant vis-à-vis the previous year. Revenues stood at Rs.337.77 crore in FY2017 as against Rs.335.85 crore in FY2016. FIL booked revenue of Rs.65.82 crore in Q1 2018 as against Rs.77.94 crore during the same period last year. The stagnancy in revenues is on account of slowdown in the export market and regulatory changes - Goods and service tax (GST) implementation in the domestic market which affected product offtake.

Reputed clientele: FIL caters to reputed clients both in the export and domestic markets. Its clientele includes Pepsico, Coca-Cola amongst others whom it has been catering to since the last 10 - 15 years. Around 35 per cent of its sales are to Pepsi and Coke (Domestic & Export) in FY2017.

Moderate financial risk profile: The tangible networth of the company increased to Rs.66.11 crore as on 31 March, 2017 as against Rs.47.51 crore as on 31 March, 2016 due to preferential issue of equity shares and warrants at a premium. The gearing (debt-to-equity ratio) improved to 2.64 times as on 31 March, 2017 as against 4.12 times as on 31 March, 2016. The total debt of Rs.174.29 crore includes unsecured loans from directors, ICD and fixed deposits issued to directors to the tune of Rs.7.13 crore, long term loans of Rs.4.33 crore and short term working capital borrowings of Rs.162.83 crore as on 31 March, 2017. The Interest coverage ratio (ICR) stood at 1.97 times for FY2017 as against 1.68 times for FY2016. The net cash accruals

to total debt (NCA to TD) stood at 0.09 times in FY2017 as against 0.04 times in FY2016. SMERA believes that the financial risk profile will remain moderate on the back of regular capex and steady profitability.

FIL shut its facility at Chembur which had a capacity of 300 MT for spray dried powder and shifted the same to Nashik. The company is evaluating multiple options to monetise the assets of its Chembur factory. The timely monetisation and realisation of adequate cash flows and their impact on the financial risk profile will remain as a key rating sensitivity.

Weaknesses:

Working capital intensive operations: The operations of FIL are seasonal in nature and thus a major challenge of the company is to manage its working capital requirements. Since around 75 per cent of the products are mango based, the company has to procure inventory during three months of the year. FIL starts procurement during April to June which results in high utilisation of working capital facilities during that time. Adhoc limits are availed during these months to meet its working capital requirements. Revenue from customers is received after dispatch mostly in next 15 months period.

In FY2016-17, gross current assets remained high at 217 days as against 197 days in FY2016. The high GCAs are mainly on account of high inventory holding of ~138 days in FY2017 as against 136 days in FY2016. In FY2016-17, FILs working capital cycle remained high at 98 days as against 143 days in FY2017 due to extended credit provided by suppliers. The average working capital limit utilisation is high at ~99 per cent in the last six months ended August 2017.

Exposure to agro climatic risks and volatility in raw material prices: FIL remains vulnerable to agro climatic risks as it deals with fruits and vegetables. Being seasonal, the prices of fruit pulp are vulnerable to the vagaries of nature.

Sale of mango pulp accounts for ~75 per cent of total sales. To diversify the product base, FIL has now started manufacturing tomato paste and vegetable. The company is also in the process of manufacturing several new products like tamarind paste, tomato paste, banana puree, chilli paste to cater to the domestic market and local manufacturers.

Exposed to foreign exchange fluctuations: Around 65 per cent of the company's sales are through export to Europe, Africa and China. The company is thus exposed to forex fluctuation risk. The company enters into forward contracts for hedging its exposure. Further, it also avails of packing credit in foreign currency and receives customer advances in foreign currency. Re-instating these exposures during the year end at the prevailing exchange rate, results in notional profits/losses. In FY2017, the company booked forex gain (net) of Rs16.21 crore (previous year forex loss of Rs.2.53 crore).

Analytical approach: as mentioned above

Applicable Criteria

- Manufacturing Entities: <https://www.smera.in/criteria-manufacturing.htm>
- Application of Financial Ratios and Adjustments: <https://www.smera.in/criteria-fin-ratios.htm>
- Default Recognition: <https://www.smera.in/criteria-default.htm>

About the Rated Entity – Key Financials

For FY2016-17, FIL reported net profit after tax (PAT) of Rs.7.49 crore on operating income of Rs.337.77 crore as against PAT of Rs. 0.61 crore on operating income of Rs. 335.85 crore in FY2015-16. The tangible net worth stood at Rs.66.11 crore as on 31 March, 2017 as against Rs. 47.51 crore as on 31 March, 2016.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for the last three years:

Date	Name of Instrument / Facilities	Term	Amount (Rs. Crore)	Ratings/Outlook
08 Oct, 2016	Cash Credit@	Long Term	30.95	SMERA BBB-/Stable (Reaffirmed)
	PC/PCFC#	Short Term	107.73	SMERA A3 (Reaffirmed)
	Term Loan	Long Term	4.77 (revised from 7.82)	SMERA BBB-/Stable (Reaffirmed)
	Inland/Foreign Letter of Credit *	Short Term	30.50	SMERA A3 (Reaffirmed)
	Bank Guarantee	Short Term	1.40	SMERA A3 (Reaffirmed)
	Corporate Loan	Long Term	13.50	SMERA BBB-/Stable (Assigned)
	Proposed Corporate Loan	Long Term	16.50	SMERA BBB-/Stable (Assigned)
	Proposed fund/non fund based facility	Long Term/Short Term	0.65 (revised from 0.40)	SMERA BBB-/Stable/A3 (Reaffirmed)
	Term Loan	Long Term	1.20	SMERA BBB-/Stable (Withdrawn)
	@includes EPC/FBD/EBD/EBN as a sublimit to the extent of Rs.15.85 crores #includes FBD/FBP as a sublimit to the extent of Rs.9.00 crores *includes Buyers' Credit as a sublimit to the extent of Rs.1.00 crores			

03 Aug, 2015	Cash Credit@	Long Term	30.95	SMERA BBB- /Stable (Assigned)
	PC/PCFC#	Short Term	107.73	SMERA A3 (Assigned)
	Term Loan	Long Term	9.02	SMERA BBB- /Stable (Assigned)
	Inland/Foreign Letter of Credit *	Short Term	30.50	SMERA A3 (Assigned)
	Bank Guarantee	Short Term	1.40	SMERA A3 (Assigned)
	Proposed fund/non fund based facility	Long Term/Short Term	0.40	SMERA BBB- /Stable/A3 (Assigned)
@includes EPC/FBD/EBD/EBN as a sublimit to the extent of Rs.15.85 crores #includes FBD/FPB as a sublimit to the extent of Rs.9.00 crores *includes Buyers' Credit as a sublimit to the extent of Rs.1.00 crores				

***Annexure – Details of instruments rated:**

Name of the Facilities	Date of Issuance	Coupon Rate (Per cent)	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/ Outlook
Cash credit	NA	NA	NA	10.55	SMERA BBB- /Stable (Reaffirmed)
PC/PCFC	NA	NA	NA	61.45	SMERA A3 (Reaffirmed)
Term Loan	NA	NA	Aug 02, 2017	3.00	SMERA BBB- /Stable (Withdrawn)
Corporate Loan	NA	NA	November 2022	13.50	SMERA BBB- /Stable (Reaffirmed)
PC/PCFC	NA	NA	NA	9.00	SMERA A3 (Reaffirmed)
Cash credit	NA	NA	NA	0.50	SMERA BBB- /Stable (Reaffirmed)
PC/PCFC	NA	NA	NA	15.00	SMERA A3 (Reaffirmed)

Corporate Loan	NA	NA	November 2022	10.00	SMERA BBB-/Stable (Assigned)
Cash Credit	NA	NA	NA	19.90	SMERA BBB-/Stable (Reaffirmed)
PCFC	NA	NA	NA	7.43	SMERA A3 (Reaffirmed)
Term Loan	NA	NA	June 2018	0.61	SMERA BBB-/Stable (Reaffirmed)
PCFC	NA	NA	NA	20.85	SMERA A3 (Reaffirmed)
ILC/FLC	NA	NA	NA	21.50	SMERA A3 (Reaffirmed)
Bank Guarantee	NA	NA	NA	1.00	SMERA A3 (Reaffirmed)
LC/Buyers' Credit	NA	NA	NA	1.00	SMERA A3 (Reaffirmed)
Bank Guarantee	NA	NA	NA	0.15	SMERA A3 (Reaffirmed)
Letter of Credit	NA	NA	NA	5.00	SMERA A3 (Reaffirmed)
Letter of Credit	NA	NA	NA	1.00	SMERA A3 (Reaffirmed)
Bank Guarantee	NA	NA	NA	0.25	SMERA A3 (Reaffirmed)
Letter of Credit	NA	NA	NA	2.00	SMERA A3 (Reaffirmed)
Corporate Loan (Proposed)	NA	NA	NA	5.31	SMERA BBB-/Stable (Reaffirmed)

Note on complexity levels of the rated instrument: <https://www.smera.in/criteria-complexity-levels.htm>

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ABOUT SMERA

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