

## Press Release

### FOODS AND INNS LIMITED

January 07, 2019

### Rating Reaffirmed



<b>Total Bank Facilities Rated*</b>	Rs.206.00 Cr.
<b>Long Term Rating</b>	ACUITE BBB- / Outlook: Stable
<b>Short Term Rating</b>	ACUITE A3

\* Refer Annexure for details

### Rating Rationale

Acuite has reaffirmed long-term rating of '**ACUITE BBB-**' (read as **ACUITE triple B minus**) and short term rating of '**ACUITE A3**' (read as **ACUITE A three**) to the Rs.206.00 crore bank facilities of FOODS AND INNS LIMITED (FIL). The outlook is '**Stable**'.

FIL, incorporated in 1967, is a Mumbai-based company engaged in the processing of fruit pulp, and natural spray dried fruit/vegetable powder. The company has six manufacturing facilities located three at Chittoor (Andhra Pradesh), one at Valsad (Gujarat) and two at Nashik (Maharashtra) with total 54000MT of fruit pulp extraction capacity. The company is majorly engaged in exports to Europe, Middle East, USA and Japan. The products are sold in aseptic, canned, frozen and spray dried form.

Finns Frozen Foods India Limited (FFIL), a 51.40 percent subsidiary of FIL, incorporated in 1982, is engaged in manufacturing of frozen fruit pulps/dices/slices, frozen vegetables, frozen snacks and frozen naans. As per letter dated November 16, 2018, it has been notified that FIL has been amalgamated with FFIL.

### Analytical Approach

Acuite has taken a consolidated view of the financial and business risk profiles of Foods and Inns Limited (FIL) and Finns Frozen Foods India Limited (FFIL). The consolidation is on account of the common management, similarities in the line of business and presence of significant operational and business synergies.

## Key Rating Drivers

### Strengths

- **Established track record of operations and experienced management**

FIL was incorporated in 1967 and later got listed in 1970. It has six manufacturing facilities spread across three states (fruit growing regions) and eight warehouses. The company is headed by Mr. Bhupendra Dalal (Chairman) who has over four decades of experience in this line of business. The group 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 tune with the market demand.

- **Reputed clientele**

FIL derives significant portion of its income from sale of range of mango products to various domestic and international companies in the food and beverage industry. Around 35 percent of the total sales in FY2018 are to Pepsi and Coke (Domestic & Export) and the remaining is distributed amongst some of the reputed players including Sumitomo Corporation (Japan), Agrana Fruit, Dohler Group, A.G. Barr, Lacnor (UAE), Haldiram's and Heinz India Private Limited, among others. The group has been associated with its existing customers for more than a decade which has helped it secure repeat orders. FIL also participates in various international trade fairs and exhibitions such as Anuga (Germany), Sial (France) and Gulf Food (Dubai) for customer orders. Exports during the year increased from 55 percent (Rs. 189.29 crore) in FY2017 to 62 percent (Rs. 199.31 crore) in FY2018.

- **Moderate financial risk profile**

The company has taken efforts in reducing its bank debt by sale of its Chembur property. In December 2015, it had shut its 300MT Chembur unit and shifted the same to Nashik and subsequently, in October 2019, the same has been sold off for Rs.147 crore (book value Rs. 10 crore). The sale proceeds have been largely utilised towards repayment of bank debt (i.e. Rs.104 crore) and the balance after settlement of taxes are expected to be utilised towards future capex. Total debt outstanding as on March 31, 2018 stood at Rs.190.80 crore. Leverage ratios are thus expected to improve on the back of reduction in debt. The tangible net worth of the group increased to Rs.42.80 crore as on 31 March, 2018 as against Rs.39.10 crore as on 31 March, 2017. The gearing (debt/ equity) stood at 4.46 times as on 31 March, 2018 as against 4.53 times as on 31 March, 2017. The interest coverage ratio (ICR) stood at 1.70 times for FY2018 as against 1.82 times for FY2017. The net cash accruals to total debt (NCA to TD) stood at 0.07 times in FY2018 as against 0.09 times in FY2017. Acuite believes that the financial risk profile will remain moderate on the back of regular capex and steady profitability.

## Weaknesses

- **Stagnancy in revenue and moderation in profitability**

The group's revenues remained stagnant during the period FY2015 to FY2018. Revenues stood at Rs.335.48 crore in FY2018 as against Rs.354.88 crore in FY2017 and Rs. 338.12 crore in FY2016. On a standalone basis, there has been a decline in the operating account from Rs. 338.03 crore in FY2017 to Rs. 315.70 crore in FY2018. In FY2017, Excise duty of Rs. 7.35 crore has been included in the revenues against which Rs. 1.60 crore has been included for FY2018 (prior to GST implementation). Further during the current half year, FIL has booked revenues of Rs.132.02 crore as against Rs.133.38 crore during the same period last year. Even though there has been an increase in the total production, there has been a decline in revenues on the back of lower realisations and regulatory changes - Goods and service tax (GST), implementation in the domestic market which affected product offtake.

In FY2018, the fruit price of mango was largely suppressed due to excess fruit supply in the market and no substantial growth in demand. Operating in a seasonal industry, raw materials are prone to price fluctuations. The group 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 percent of total sales. On account of the above, the company's operating margins declined to 10.56 percent in FY2018 from 11.66 percent in FY2017. Acuite believes that the company's ability to diversify its product base, since the company is in the process of manufacturing several new products such as tamarind paste, tomato paste, banana puree, chilli paste to cater to the domestic market and local manufacturers, will remain a key rating sensitivity.

- **Working capital intensive operations**

Operations of the group are seasonal in nature and thus, a major challenge is to manage its working capital requirements. Since around 75 percent of the products are mango based the group 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. Ad-hoc limits are availed during these months to meet its working capital requirements. In FY2018, Gross Current Assets (GCA) days declined from 204 in FY2017 to 234 in FY2018. The increase is due to increase in collection period from 52 days in FY2017 to 74 days in FY2018. The inventory holding period also increased from 135 days in FY2017 to 140 days in FY2018. The average working capital limit utilisation stood high at ~85-90 percent in the last six months ended October 2018.

- **Exposed to foreign exchange fluctuations**

Around 65 percent of the group's sales are through export to Europe Africa and China. The group is thus exposed to forex fluctuation risk. The group 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. Further, there has been a decline in current year profitability on account of MTM loss booked by the company of Rs. 7.34 crore for the half year ended September 2018.

### Outlook: Stable

Acuite believes that the group will maintain a 'Stable' outlook over the medium term owing to its established presence in the industry extensive experience of its promoters and established relations with customers. The outlook may be revised to 'Positive' in case the group registers more than expected revenue growth while maintaining its profitability and registering improvement in its financial risk profile. Conversely, the outlook may be revised to 'Negative' in case of failure in achieving expected revenues profitability or if the working capital cycle further deteriorates.

### About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	335.48	354.88	338.12
EBITDA	Rs. Cr.	35.43	41.39	32.04
PAT	Rs. Cr.	3.47	4.71	0.61
EBITDA Margin	(%)	10.56	11.66	9.48
PAT Margin	(%)	1.03	1.33	0.18
ROCE	(%)	11.19	13.59	20.07
Total Debt/Tangible Net Worth	Times	4.46	4.53	5.59
PBDIT/Interest	Times	1.70	1.82	1.68
Total Debt/PBDIT	Times	5.18	4.15	6.16
Gross Current Assets (Days)	Days	234	204	205

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

None

### Any other information

None

### Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>
- Consolidation Of Companies - <https://www.acuite.in/view-rating-criteria-22.htm>

### Note on complexity levels of the rated instrument

<https://www.acuite.in/criteria-complexity-levels.htm>

### Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
17-Oct-2017	Cash Credit	Long Term	10.55	ACUITE BBB- / Stable (Reaffirmed)
	Packing Credit	Short Term	61.45	ACUITE A3 (Reaffirmed)
	Term Loan	Long Term	3.00	ACUITE BBB- (Withdrawn)
	Term Loan	Long Term	13.50	ACUITE BBB- / Stable (Reaffirmed)
	Packing Credit	Short Term	9.00	ACUITE A3 (Reaffirmed)
	Cash Credit	Long Term	0.50	ACUITE BBB- / Stable (Reaffirmed)
	Packing Credit	Short Term	15.00	ACUITE A3 (Reaffirmed)

	Term Loan	Long Term	10.00	ACUITE BBB- / Stable (Assigned)
	Cash Credit	Long Term	19.90	ACUITE BBB- / Stable (Reaffirmed)
	Packing Credit	Short Term	7.43	ACUITE A3 (Reaffirmed)
	Term Loan	Long Term	0.61	ACUITE BBB- / Stable (Reaffirmed)
	Packing Credit	Short Term	20.85	ACUITE A3 (Reaffirmed)
	Letter of Credit	Short Term	21.50	ACUITE A3 (Reaffirmed)
	Bank Guarantee	Short Term	1.00	ACUITE A3 (Reaffirmed)
	Letter of Credit	Short Term	1.00	ACUITE A3 (Reaffirmed)
	Bank Guarantee	Short Term	0.15	ACUITE A3 (Reaffirmed)
	Letter of Credit	Short Term	5.00	ACUITE A3 (Reaffirmed)
	Letter of Credit	Short Term	1.00	ACUITE A3 (Reaffirmed)
	Bank Guarantee	Short Term	0.25	ACUITE A3 (Reaffirmed)
	Letter of Credit	Short Term	2.00	ACUITE A3 (Reaffirmed)
	Proposed Long term Loan	Long Term	5.31	ACUITE BBB- / Stable (Reaffirmed)
08-Oct-2016	Cash Credit	Long Term	30.95	ACUITE BBB- / Stable (Reaffirmed)
	Packing Credit	Short Term	107.73	ACUITE A3 (Reaffirmed)
	Term Loan	Long Term	4.77	ACUITE BBB- / Stable (Reaffirmed)
	Letter of Credit	Short Term	30.50	ACUITE A3 (Reaffirmed)
	Bank Guarantee	Short Term	1.40	ACUITE A3 (Reaffirmed)
	Term Loan	Long Term	13.50	ACUITE BBB- / Stable (Assigned)
	Proposed Long Term Loan	Long Term	16.50	ACUITE BBB- / Stable (Assigned)
	Proposed Working Capital Demand Loan	Long Term	0.65	ACUITE BBB- / Stable (Reaffirmed)
	Term Loan	Long Term	1.20	ACUITE BBB- (Withdrawn)
03-Aug-2015	Cash Credit	Long Term	30.95	ACUITE BBB- / Stable (Assigned)
	Packing Credit	Short Term	107.73	ACUITE A3 (Assigned)

	Term Loan	Long Term	9.02	ACUITE BBB- / Stable (Assigned)
	Letter of Credit	Short Term	30.50	ACUITE A3 (Assigned)
	Bank Guarantee	Short Term	1.40	ACUITE A3 (Assigned)
	Proposed Working Capital Demand Loan	Long Term	0.40	ACUITE BBB- / Stable (Assigned)

**\*Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	10.55	ACUITE BBB- / Stable (Reaffirmed)
Packing Credit	Not Applicable	Not Applicable	Not Applicable	61.45	ACUITE A3 (Reaffirmed)
Term Loan	Not Applicable	Not Applicable	Not Applicable	13.50	ACUITE BBB- / Stable (Reaffirmed)
Packing Credit	Not Applicable	Not Applicable	Not Applicable	9.00	ACUITE A3 (Withdrawn)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	0.50	ACUITE BBB- (Withdrawn)
Packing Credit	Not Applicable	Not Applicable	Not Applicable	15.00	ACUITE A3 (Withdrawn)
Term Loan	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE BBB- (Withdrawn)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	19.90	ACUITE BBB- / Stable (Reaffirmed)
Packing Credit	Not Applicable	Not Applicable	Not Applicable	7.43	ACUITE A3 (Withdrawn)
Term Loan	Not Applicable	Not Applicable	Not Applicable	0.61	ACUITE BBB- (Withdrawn)
Packing Credit	Not Applicable	Not Applicable	Not Applicable	20.85	ACUITE A3 (Withdrawn)
Term Loan	Not Applicable	Not Applicable	Not Applicable	8.00	ACUITE BBB- / Stable (Assigned)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	21.50	ACUITE A3 (Reaffirmed)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	1.00	ACUITE A3 (Reaffirmed)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	1.00	ACUITE A3 (Withdrawn)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	0.15	ACUITE A3 (Withdrawn)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE A3 (Withdrawn)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	1.00	ACUITE A3 (Reaffirmed)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	0.25	ACUITE A3 (Reaffirmed)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE A3 (Withdrawn)

Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	68.85	ACUITE BBB- / Stable (Reaffirmed)
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