

Press Release

Indo Allied Protein Foods Private Limited

March 23, 2021



Rating Assigned

Total Bank Facilities Rated*	Rs. 50.00 Cr.
Long Term Rating	ACUITE BBB- / Outlook: Stable (Assigned)

* Refer Annexure for details

Rating Rationale

Acuité has assigned its long-term rating of '**ACUITE BBB-**' (read as ACUITE triple B minus) on the Rs.50.00 crore bank facilities of Indo Allied Protein Foods Pvt. Ltd. The outlook is '**Stable**'.

The rating assigned to Indo Allied Protein Foods Pvt. Ltd. takes into account experienced management, long-track record of operations, healthy financial risk profile, improvement in operating performance and business synergy benefits to partnership firms. However, the rating is constrained by working capital intensive nature of operations, susceptibility to fluctuation in food inflation along with high client concentration, tender-based operations and risk of capital withdrawal from partnership firms.

About Company

Incorporated in 2003, Indo Allied Protein Foods Pvt. Ltd. (IAPFPL) is engaged in supplying food articles such as edible oil, grains, pulses, spices, ready to cook items etc. and non-food items such as shoes, baby care kit, safety kit, notebook, etc. to the various departments of Maharashtra State Government and the Municipal Corporation of Greater Mumbai. The Mumbai-based, company also has its own manufacturing facility in Chakan, Pune, where it produces ready to cook food like upama, noodles, sattu, sheera, sukhadi, etc. IAPFPL also has central kitchen facility at Bhiwandi, where it produces 21,000 meals per day for labourers, who are registered with the labour board of the Maharashtra State Government.

About the Group

Indo Group comprising IAPFPL, Saroj Enterprise and Shiva Enterprise, is mainly into supply of food and non-food items to the various departments of the Maharashtra State Government either directly or indirectly. While IAPFPL supplies directly to the state government departments, Saroj Enterprise and Shiva Enterprise (partnership firms) supply to private players, who in turn supply to the Maharashtra State Government departments.

Analytical Approach

Acuité has considered the consolidated financial and operational risk profiles of IAPFPL, Saroj Enterprise and Shiva Enterprise - together referred as Indo Group, to arrive at the rating. The consolidation is in the view of similar nature of business, operational linkage and family-owned businesses. Extent of Consolidation: Full

Key Rating Drivers

Strengths

- **Experienced management and long-track record of operations**

Indo Group has been present in this industry for over 15 years and is supported by well experienced and qualified management personnel. Mr. Rajan Jadhav, promoter and CEO of the group, has a business experience of more than 3 decades. Long experienced of the promoter has helped the group to have supportive strategies in place, which enabled the group to expand its product offering. Just from being a trader to the various departments of Maharashtra State Government, Indo Group also started supplying manufactured food items such as ready to cook food over the years.

The group has been able to get new tenders, thus expanding its customer base for the partnership firms - Saroj Enterprise and Shiva Enterprise. This has resulted in the strong, profitable growth of the group. In FY20,

the group's revenue stood at Rs.566.18 crore compared to Rs.125.25 crore in FY18.

Acuité believes that experienced management would continue to help the group to generate healthy revenues while maintaining its profitability margins.

- **Healthy financial risk profile**

Indo group has healthy financial risk profile marked by strong net worth, healthy gearing and debt protection matrix. The group's net worth stood at Rs.176.51 crore as on 31 March 2020 as against Rs.65.36 crore in the previous year.

The group follows conservative leverage policy with its peak gearing (debt-equity) level standing at 0.99 times in the past three years ending March 31, 2020. The gearing position is also supported by higher net worth. The group's debt to equity ratio stood at 0.24 times as on March 31, 2020 compared to 0.38 times as on March 31, 2019. Total debt of the group stood at Rs.42.55 crore, comprising long-term debt of Rs.0.46 crore, loan from related parties of Rs.0.33 crore and short-term debt of Rs.41.76 crore.

The coverage indicators of the group is healthy marked by interest coverage ratio (ICR) standing at 22.36 times in FY20 compared to 19.12 times in FY19. Debt service coverage ratio (DSCR) stood at 12.65 times in FY20. The group's TOL/TNW stood at 0.89 times as on March 31, 2020 compared to 1.04 times a year back. Acuité believes the financial risk profile of the group will remain healthy on account of healthy net cash accruals.

- **Improving operating performance**

In FY20 the group's revenue stood at Rs.566.18 crore against Rs.198.03 crore in FY19. This was mainly due to higher orders from the Maharashtra Building & Other Constructions Workers Welfare Board. The group's net profit stood at Rs.82.84 crore in FY20 compared to Rs.29.89 crore in FY19.

Acuité believes, going ahead, the group's operating performance is likely to improve on account of addition of new districts and orders.

Weaknesses

- **Working capital intensive nature of operations**

Indo group operates in a working capital intensive nature of operations marked by Gross Current Asset (GCA) days of 188 for FY20 against 179 days for FY19. This was due to rise in scale of business led by higher orders. The group's working capital cycle is driven by debtor days, which stood at 130 days for FY20. Inventory days also doubled for FY20 to 62 from 30 a year back. Average bank limit utilization in the last four months ending January 2021 was around 89per cent. Acuité believes the group's ability of maintaining its working capital management will remain key credit monitorable.

- **Susceptibility to fluctuation in food inflation and high client concentration**

IAPFPL's profitability is susceptible to fluctuation in food inflation. Any sharp rise in the overall food inflation would hurt the company's profitability and in turn, hurt overall operating performance of Indo Group. Being a tender-based business, there is no scope to pass on any sudden rise in food inflation. Further, the group has high client concentration as its entire business is directly or indirectly relied on the state government of Maharashtra. Thus, any adverse change in policy decision by the state government would have negative implications on Indo Group's entire business.

- **Tender-based business operations and risk of capital withdrawal from partnership firms**

Business of IAPFPL is based on tender orders floated by departments of the State of Maharashtra. Therefore, the company's revenue is directly linked to the successful bidding of orders amidst high competitive intensity. High competitive intensity also impacts the pricing power of players. Further, Saroj Enterprise and Shiva Enterprise being partnership firms, there is a risk of capital withdrawal.

Liquidity Position-Adequate

Indo Group has adequate liquidity marked by healthy net cash accruals to its maturing debtobligations. The group generated cash accruals of Rs.84.33 crore for FY20, while maturing debt obligations were Rs.0.25 crore for the same period. The cash accruals of the group are estimated to remain in the range of around Rs.74 crore to Rs.94 crore during FY21 to FY23 period against repaymentobligations of up to Rs.0.24 crore during the same period. The group maintained unencumbered cash and bank balances of Rs.6.03 crore as

on 31, March, 20. The current ratio stood comfortable at 2.02 times as on 31 March, 20. Acuité believes that the liquidity of the firm is likely to remain adequate over the medium term on account of sufficient cash accruals to its maturing debt obligation.

Rating Sensitivities

- Elongation of working capital cycle
- Sharp rise in food inflation

Outlook: Stable

Acuité believes that Indo Group would maintain 'Stable' outlook on the back of experienced management, long track record of operations, healthy financial risk profile and improved operating performance. The outlook may be revised to 'Positive' in case the company reports higher-than-expected growth in revenue and improvement in profits. Conversely, the outlook may be revised to 'Negative' in case the company reports lower-than-expected improvement in growth and in profitability, thereby deteriorating financial risk profile and liquidity position.

About the Rated Entity - Key Financials

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	566.18	198.03
PAT	Rs. Cr.	82.84	29.89
PAT Margin	(%)	14.63	15.10
Total Debt/Tangible Net Worth	Times	0.24	0.38
PBDIT/Interest	Times	22.36	19.12

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

None

Any other information

Not Applicable

Any Material Covenants

No major covenants

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Trading Entities - <https://www.acuite.in/view-rating-criteria-61.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-59.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>
- Consolidation Of Companies - <https://www.acuite.in/view-rating-criteria-60.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Upto last three years)

Not Applicable

***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	40.00	ACUITE BBB-/Stable (Assigned)
Proposed bank facility	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE BBB-/Stable (Assigned)

Contacts

Analytical	Rating Desk
Aditya Gupta Vice President Tel: 022-49294041 aditya.gupta@acuite.in Shreepad Aute Senior Analyst - Rating Operations Tel: 022-49294000 shreepad.aute@acuite.in	Varsha Bist Senior Manager - Rating Desk Tel: 022-49294011 rating.desk@acuite.in

About Acuité Ratings & Research:

Acuité Ratings & Research Limited is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 8,612 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Mumbai.

Disclaimer: An Acuité rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. Acuité ratings are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, Acuité, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. Acuité is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind arising from the use of its ratings. Acuité ratings are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website (www.acuite.in) for the latest information on any instrument rated by Acuité, Acuité's ratingscale and its definitions.