

Press Release

AFP MANUFACTURING CO. PRIVATE LIMITED

July 06, 2023

Rating Assigned and Downgraded

Product	Quantum (Rs. Cr)	Long Term Rating	Share
Bank Loan Ratings	17.00	ACUITE BB+ Stable Assigned	-
Bank Loan Ratings	73.00	ACUITE BB+ Stable Downgraded	-
Total Outstanding Quantum (Rs. Cr)	90.00	-	-



Rating Rationale

Acuite has downgraded the long-term rating to 'ACUITE BB+' (read as ACUITE double B plus) from 'ACUITE BBB-' (read as ACUITE triple B minus) on the Rs.73.00 Cr. bank facilities of AFP Manufacturing Co. Private Limited (AFP). The outlook remains 'Stable'.

Acuite has assigned the long-term rating of 'ACUITE BB+' (read as ACUITE double B plus) on the Rs.17.00 Cr. bank facilities of AFP Manufacturing Co. Private Limited (AFP). The outlook is 'Stable'.

Rationale for rating downgrade

The rating downgrade is primarily on account of stretched in the liquidity position of the company marked by insufficient net cash accruals of Rs. 8.93 Cr in FY2023 (Provisional) as against long term debt repayment of Rs. 11.07 Cr over the same period.

The rating is further constrained by the company's below average financial risk profile marked by high gearing and weak debt coverage indicators due to the increased debt position owing to the capex project undertaken over the same period. The gearing of the company stood high at 2.62 times as on March 31, 2023 (Provisional) and DSCR of 0.89 times for FY2023 (Provisional).

However, the rating continues to reflect the long standing operations of the company and the experienced management. The rating also considers the AMCPL's steady scale of operations backed by healthy association with reputed clientele.

About the Company

AFP Manufacturing Co. Private Limited (AMCPL) was established in 1982, as a partnership firm named Aggarwal Food Products. The constitution was later on changed to private limited company in 1999. The company is managed by Mr. Anil Aggarwal, Mr. Puneet Aggarwal and Mr Ravindra Singh. AMCPL is engaged in the manufacturing of salted snacks (namkeen) and other ready-to-eat snacks, potato chips, namkeens and bhujia among others. The company has three units in Hajipur (Bihar) with combined capacity of 34400 MT per month. The company has its own brand 'Munchhonn' and also works as a contract manufacturer of PepsiCo for manufacturing and packaging of 'Kurkure'.

Analytical Approach

Acuite has considered the standalone business and financial risk profile of AMCPL while arriving at the rating.

Key Rating Drivers

Strengths

Long track record of operations coupled with long-term association with reputed clientele

The company has a lengthy operational history spanning over four decades and has built strong ties with the reputed clientele, PepsiCo. AMCPL is a contract manufacturer of Kurkure for PepsiCo India Holdings Pvt. Ltd. Since 2011, the company has collaborated with PepsiCo. AMCPL started off making and packaging 'Lehar' namkeens before launching the Kurkure range in 2016. A ten-year agreement for the processing and packaging of "Kurkure" has been inked by PepsiCo and AFP. Mr. The company is headed by Anil Kumar Gupta, who has over 40 years of expertise in the same field of work. Also, Mr. Puneet Agarwal and Mr. Ravindra Singh, who have more than ten years of expertise in the field provides further assistance to the company. Acuite believes that AMCPL will continue to be benefited over the medium term on the back of established track record, experienced management and long term agreements with the reputed clientele.

Stable business risk profile

The revenue of the company increased to Rs.242.72 Cr in FY2023 (Provisional) as compared to Rs.193.34 Cr in the previous year. The improvement in the scale of operations is supported by the continuous order flow from the reputed clientele and the timely execution of such. Further, the company has enhanced the production capacities along with adding a new variant in potato chips segment and entered into a new agreement with PepsiCo for Kurkure. Acuite believes that AMCPL will continue to maintain its stable operating performance over the medium term on account of strong clientele association and steady order flow from PepsiCo.

Weaknesses

Below average financial risk profile

The financial risk profile of the company is marked by modest net worth, weak debt protection metrics and constrained by high gearing. The net worth of the company stood moderate at Rs.32.92 Cr as on March 31, 2023 (Provisional) as compared to Rs.30.92 Cr as on March 31, 2022. The gearing of the company deteriorated and stood high at 2.62 times as on March 31, 2023 (Provisional) as compared to 2.44 times as on March 31, 2022 on account of increase in total debt outstanding of the company. The Total Outside Liabilities/Tangible Net Worth (TOL/TNW) also stood high at 3.32 times as on March 31, 2023 (Provisional) as against 2.98 times as on March 31, 2022. The debt service coverage ratio (DSCR) stood weak at 0.89 times in FY2023 (Provisional). However, the Interest Coverage Ratio (ICR) of the company stood moderate at 2.22 times in FY2023 (Provisional). The net cash accruals to total debt (NCA/TD) stood at 0.10 times in FY2023 (Prov.). Acuite believes that any further deterioration in financial risk profile will remain a key rating sensitivity, going forward.

Moderate profitability margins

The PAT margin of the company declined to 0.53 per cent in FY2023 (Provisional) as compared to 1.82 per cent in FY2022. The deterioration is on account of rise in the interest costs and depreciation cost owing to the capex project undertaken over the same period. On absolute levels, the company profit after tax declined and stood at Rs.1.29 Cr. in FY2023 (Provisional) compared to Rs.3.52 Cr. in FY2022. However, the operating margin of the company moderately improved to 6.96 per cent in FY2023 (Provisional) as compared to 5.60 per cent in the previous year. Acuite believes that, going forward, improvement in the profitability margins will be key monitorable.

Rating Sensitivities

- Growth in scale of operations while improving the profitability margins
- Further deterioration in the financial risk profile
- Improvement in the liquidity position

Material covenants

None

Liquidity Position: Stretched

The company's stretched liquidity position is marked by insufficient cash accruals to serve the debt obligations of the company. The net cash accruals stood inadequate at Rs.8.93 Cr in FY2023 (Provisional) as against the long term debt repayment of Rs.11.07 Cr in the same period. However, the stretched liquidity position is mitigated to some extent by way of infusion of unsecured loans to the tune of Rs.8.10 Cr by the promoters in FY2023 to meet the shortfall in repayments. Moreover, the fund based bank limit utilisation of the company remain moderately high at 81 per cent during the six months ended May 2023. The cash and bank balance stood at Rs.0.22 Cr in FY2023 (Provisional). Also, the current ratio of the company stood low at 0.96 times in FY2023 (Provisional). However, the efficient working capital cycle is marked by Gross Current Asset (GCA) days at 91 days in FY2023 (Provisional) as against 95 days in FY2022.

Acuité believes that the liquidity position of the company will continue to remain stretched on account of low cash accruals to meet its debt obligations going forward.

Outlook: Stable

Acuité believes that the outlook on the company will remain 'Stable' over the medium term on account of the established track record of operations, experienced management and strong association with PepsiCo. The outlook may be revised to 'Positive' in case of significant growth in revenue and profitability margins from the current levels while improving its financial risk profile and liquidity position. Conversely, the outlook may be revised to 'Negative' in case of further deterioration in the financial risk profile or further deterioration in the liquidity profile.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 23 (Provisional)	FY 22 (Actual)
Operating Income	Rs. Cr.	242.72	193.34
PAT	Rs. Cr.	1.29	3.52
PAT Margin	(%)	0.53	1.82
Total Debt/Tangible Net Worth	Times	2.62	2.44
PBDIT/Interest	Times	2.22	4.09

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

India Ratings vide its press release dated 11.04.2023, had rated the company as IND BB, ISSUER NOT COOPERATING.

Any other information

None

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

In order to inform the investors about complexity of instruments, Acuité has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuité's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in.

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
16 Aug 2022	Working Capital Demand Loan	Long Term	4.75	ACUITE BBB- Stable (Assigned)
	Term Loan	Long Term	30.47	ACUITE BBB- Stable (Assigned)
	Cash Credit	Long Term	12.00	ACUITE BBB- Stable (Assigned)
	Cash Credit	Long Term	5.50	ACUITE BBB- Stable (Assigned)
	Proposed Bank Facility	Long Term	20.28	ACUITE BBB- Stable (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
State Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	17.50	ACUITE BB+ Stable Downgraded (from ACUITE BBB-)
State Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	17.00	ACUITE BB+ Stable Assigned
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Simple	0.91	ACUITE BB+ Stable Downgraded (from ACUITE BBB-)
Not Applicable	Not Applicable	Proposed Long Term Loan	Not Applicable	Not Applicable	Not Applicable	Simple	2.64	ACUITE BB+ Stable Downgraded (from ACUITE BBB-)
Bajaj Finance Ltd.	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	17.00	ACUITE BB+ Stable Downgraded (from ACUITE BBB-)
State Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	34.95	ACUITE BB+ Stable Downgraded (from ACUITE BBB-)

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About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & 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. Acuité has assigned 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 Kanjurmarg, Mumbai.

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