

Anjani Foods Limited

August 09, 2021

Ratings

Facilities/Instruments	Amount (Rs. crore)	Ratings	Rating Action
Long Term Bank Facilities	5.21 (Enhanced from 5.00)	CARE BB+; Positive (Double B Plus; Outlook: Positive)	Reaffirmed; Outlook revised from Stable
Total Bank Facilities	5.21 (Rs. Five Crore and Twenty-One Lakhs Only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The reaffirmation in the ratings assigned to the bank facilities of Anjani Foods Limited (AFL) continue to be constrained by small scale of operations, presence in highly fragmented industry amidst intense competition, margins susceptible to raw material price fluctuations. Nevertheless, the ratings derive comfort from experienced and resourceful promoters, consistent growth in total operating income and profitability margins during FY19-FY21 [FY refers to period starting from April to March] along with comfortable leverage and coverage indicators.

Key Rating Sensitivities

Positive factors: Factors that could lead to positive rating action/upgrade

- ✓ TOI improving by 20% or more y-o-y while maintaining sustainable PBILDT margins above 6%.
- ✓ Total debt to PBILDT improving to less than 1x, on a sustained basis.

Negative Factors: Factors that could lead to negative rating action/downgrade

- * Overall gearing deteriorating to above 1.0x, in future
- * Significant decline in TOI or profits by more than 20% y-o-y.

Outlook: Positive

The positive outlook on the rating reflects the expected increase in revenue and profitability from FY22 onwards, backed by healthy demand for company's key products. The ability of the company to demonstrate improvement in revenue and maintain profitability margins on a sustained basis would be critical from rating perspective.

Detailed description of the key rating drivers

Key Rating Weakness

Small scale of operations

Despite more than two decades of presence in the industry, the company remains a small sized entity marked by a total operating income (TOI) of Rs. 29.41 crore in FY21 and a low net worth base of Rs. 11.10 crore as on March 31, 2021.

Presence in highly fragmented industry amidst intense competition

Presence in highly fragmented industry amidst intense competition: As entry and exit barriers in construction industry are low, the industry has many organized as well as unorganized players and is therefore, highly fragmented and intensely competitive.

Margins susceptible to raw material prices fluctuations

The major raw materials for manufacturing confectionaries are sugar, oil and flour. The company is exposed to price fluctuations as the supply of such agro commodities are exposed to vagaries of nature. Moreover, the prices of these commodities are dependent upon various factors including climatic conditions in the growing regions, substitutes for the crop (for farmers), government regulations for sugar pricing, as well as alternate demand drivers, this impacts the profitability margin which already are on a lower side. Furthermore, cookies and cakes being perishable in nature and having life span of 6 months to 12 months from the date of manufacturing, hence requiring better and quicker selling ability.

Key Rating Strengths

Experienced and resourceful promoters

Anjani Foods Limited (AFL) has been promoted by Mr. K V Vishnu Raj and Mr. R. Ravichandran. Mr. K V Vishnu Raj (Chairman) is a post graduate by qualification and having more than three decades experience in different business such as educational sector, tiles, food etc. and Mr. R. Ravi Chandran (whole time director and Chief Executive officer) is a post graduate by qualification and having more than two decades of industry experience. By virtue of long presence in the market, the promoters have established healthy relationship with suppliers and customers. Recently in the year 2020, Mr. K. Aditya Vissam son of Mr. K V Vishnu Raj has joined as a Managing Director of Anjani Foods Limited, is a post graduate by qualification and having more than a decade of industry experience. Furthermore, the company has hired qualified and experience professionals from food retail giants like McDonald, ITC etc., at top executive level to provide professional guidance.

Consistent growth in total operating income and profitability margins

The total operating income of the company has been on a growing trend registering a CAGR of 11.46% during the period FY19 to FY21 backed by growth in demand for confectionaries. The PBILDT margin of the company improved to 7.87% during FY21 on account of improved sales realization. The company commands good margins from premium products like cakes, pastries, pizzas which have target customers from high income groups. The profit margins are sustainable and likely to grow, going forward as the company has been strategically targeting high income consumers in smaller towns which have lesser competition and are untapped markets. After, Mr. K. Aditya Vissam had taken charge as MD of the company in the year 2020, he made a lot of structural changes in the business like introducing centralized and live kitchen concepts and also, he hired professional chefs to concentrate more on their premium products other than their regular products like bread, bun and rusk which would actually helped the company in increasing the profitability margins during FY21.

Comfortable capital structure and debt coverage indicators

Capital structure of the company has remained comfortable marked by overall gearing ratio of the company stood at 0.58x as on March 31, 2021. The debt structure consists of term loans availed for machinery, working capital borrowings and unsecured loans. The company also availed COVID GECL loan of Rs 0.60 crore in FY21. The PBILDT interest coverage ratio improved from 2.68x during FY19 to 5.47x during FY21 and other debt coverage indicator like total debt to GCA also stood satisfactory at 1.72x during FY21.

Liquidity: Adequate

Adequate liquidity characterized by sufficient accruals of Rs. 3.47 crore vis-à-vis repayments obligation of Rs. 0.94 crore in FY22. Liquidity is supported by a above unity current ratio and positive cash flows from operations as on March 31, 2021. The average working capital utilization is around 96%, although the working capital limits availed by the company are low. The company has repaid Rs 0.22 crore of TL in Q1FY22.

Analytical approach: Standalone, factoring linkages with promoter group viz. Anjani Vishnu group.

Applicable Criteria

[Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Rating Methodology: Notching by factoring linkages in Ratings](#)

[Financial ratios – Non-Financial Sector](#)

[Liquidity Analysis of Non-Financial Sector Entities](#)

[Criteria for Short Term Instruments](#)

[Rating Methodology – Manufacturing Companies](#)

About the company

Andhra Pradesh based, Anjani Foods Limited (AFL) is a public limited company listed on BSE. The company is engaged in the business of manufacturing, distribution and trading of confectionery products. The company has its own manufacturing units located in Andhra Pradesh having an installed capacity of 6100 tons per year. The products of AFL are sold under the brand "Fresh Choice's". AFL is a part of well known, Andhra based, Anjani Vishnu group, the group has its presence across varied sectors like education, tiles and security printing.

Brief Financials (Rs. crore)	31-03-2020	31-03-2021
	Audited	Abridged
Total operating income	27.79	29.41
PBILDT	1.54	2.31
PAT	0.48	3.01
Overall gearing (times)	0.50	0.58
Interest coverage (times)	3.75	5.47

Status of non-cooperation with previous CRA: Nil.

Any other information: Not Applicable

Rating History (Last three years): Please refer Annexure-2

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	1.80	CARE BB+; Positive
Fund-based - LT-Term Loan	-	-	September 2025	3.41	CARE BB+; Positive

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1.	Fund-based - LT-Cash Credit	LT	1.80	CARE BB+; Positive	-	1)CARE BB+; Stable (13-May-20)	-	-
2.	Fund-based - LT-Term Loan	LT	3.41	CARE BB+; Positive	-	1)CARE BB+; Stable (13-May-20)	-	-

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities: Not Applicable**Annexure 4: Complexity level of various instruments rated for this Firm**

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Cash Credit	Simple
2.	Fund-based - LT-Term Loan	Simple

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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