

Anjani Foods Limited (Revised)

October 09, 2023

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long Term Bank Facilities	10.21 (Enhanced from 7.27)	CARE BB+; Stable	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The reaffirmation of the rating assigned to the bank facilities of Anjani Foods Limited (AFL) continue to be constrained due to moderate financial risk profile and working capital intensive nature of operations, profitability susceptible to raw material price fluctuations, moderate financial risk profile and intense competition in confectionary industry. The ratings, however, derive comfort from experienced and resourceful promoters, consistent growth in scale of operation and profitability in FY23 [FY refers to period starting from April to March], established regional presence of brand "Fresh Choice", satisfactory operating cycle, favourable plant location and stable industry outlook. CARE Ratings also took into consideration financial and operational performance of Q1FY24.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- TOI improving by 30% 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

- Overall gearing deteriorating to above 1x, in future
- Significant decline in TOI or profits by more than 10% y-o-y

Analytical approach: Consolidated

AFL has formed a Joint venture (JV) namely Senta Foodwork Private Limited where AFL has bought equity shares aggregating to 51% of the total equity share capital and balance 49% held by rest Quennelle 36 Foodworks Private Limited.

Outlook: Stable

The 'Stable' outlook on the ratings of AFL reflects CARE Rating's expectation to sustain its financial risk profile and improve profitability with healthy cash flow generation from operations. Sufficient cash balances and low term debt repayment obligations shall aid the liquidity profile of AFL.

Detailed description of the key rating drivers:

Key weaknesses

Moderate financial risk profile and working capital intensive operations: Despite increase in the debt levels due to additional term loan of Rs. 3.10 crore and high working capital utilization, however, simultaneous increase in net worth through accretion of profit, the overall gearing of AFL improved from 0.86x as on March 31, 2022 to 0.80x as on March 31, 2023. Given the working capital-intensive nature and growing scale of operations, the reliance on working capital bank borrowings has been high with almost full utilization in last 12 months ended July 31, 2023. However, the sanctioned CC limit is on a lower side at Rs.1.80 crore compared to the growing scale of business.

Nevertheless, the coverage indicators of the company are satisfactory. PBILDT interest coverage ratio of the company improved to 4.95x in FY23 as against 2.46x in FY22 and total debt to GCA of the company improved from 7.05x as of March 31, 2022, to 2.94x as of March 31, 2023.

Profitability susceptible to raw material price 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, require more effort in selling the product before its expiry as the liability of the expired products rests with the company. Additionally, the company mostly procures raw material from the local traders, however, if the market is favourable, the company will enter into long term contracts with the vendors. The tenure of these contracts varies depending upon the favorable prices of the raw material.

Intense competition in confectionary industry: AFL faces competition from larger established companies like Britannia, Parle, ITC, and other regional brands. Most of these players have a large scale of operations, a pan-India presence and strong

¹Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

brand positioning. Apart from these, as entry and exit barriers in confectionery industry are low large local and regional players have also mushroomed across the country which has added to competitive intensity in the industry. Hence, the biggest challenge for the industry players would be retaining and growing not only their regional presence, but also strategize to become a regional level player by maintaining quality standards.

Key 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 postgraduate 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 postgraduate 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 postgraduate 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 scale of operation and profitability: The total operating income (TOI) of AFL remain moderate despite improvement by ~40% from Rs.34.96 crore in FY22 to Rs.48.86 crore in FY23 owing to increase in per capita consumption driven by changing lifestyles, growing urbanization, and steadily rising affluence levels which AFL is meeting through increasing its retail outlets every year. The company has achieved 96% of TOI of projected revenue for FY23. The profitability of the company marked by PBILDT margin improved significantly to 7.15% (PY: 3.96%) with increase in sales realization. This is on account of setting up a new production facility beside the existing facility in Visakhapatnam to cater to the increase in demand for their products and focus on increasing sale of products yielding high margins. In line with increase in TOI and PBILDT margins, and other expenses remaining stable, the PAT margins also improved to 1.74% in FY23 (PY: 0.45%).

Further, for Q1FY24, AFL reported revenue of Rs.11.58 crore which is about 18% of projected revenue for FY24. Growth is primarily driven by stable revenue from existing products, increase in revenue from newly added products such as Gelatos in confectionary segment and other revenue from increasing number of retail food outlets.

Established regional presence of brand "Fresh Choice": The brand Fresh Choice is an established brand in the cake segment in rural and towns of Andhra Pradesh region. AFL manufactures different varieties of cookies, cakes and breads. The management is planning to expand its operations to Tamil Nadu mainly concentrating on smaller cities like Coimbatore, Salem and Trichy.

Satisfactory operating cycle: AFL operates in the industry where the requirement of working capital is very high. The company manufactures different varieties of cookies, cakes and breads. The average collection period stood at 10 days which is better than its competitors. However, the working capital cycle of the company though deteriorated from 14 days in FY22 to 22 days during FY23 due to increase in inventory levels remains comfortable. Given the increase in scale of operations and to avoid any disruption in production, AFL decided to maintain higher inventory resulting in increase in inventory period. AFL maintains inventory of about 2 months. With established relationship with its suppliers, AFL is able to get a credit period of 2 months.

Favourable plant location: The manufacturing units of the company is strategically located in Modavalasa village near Visakhapatnam with which provides logistical advantage to the company. AFL procures most of its raw material like maida, sugar and atta from local farmers/processors located in and around the unit. Considering the growing demand for AFL's products and scale of business, and for the ease of trade, company is setting up a new production facility in Peddapuram with state-of-the-art machinery with Japanese Technology which will help increase production and further provide logistical advantage for sale in East Godavari which is a great untapped market for AFL.

Moreover, the company has established two centralized kitchens in Hyderabad and Visakhapatnam to manufacture Cakes, Pastries, Cupcakes, Pancakes, and few other products to provide fresh and delicious products to their customers. The company has its own cold storage vehicle which helps in logistics by transporting from centralized kitchens to their retail outlets and the company hires the cold storage vehicle if their own vehicle is in transit.

Industry outlook: The long-term demand outlook is favourable on the expectations of growing population and changing consumer preferences, driven by factors such as western food trends, growing urbanisation, steadily rising affluence levels resulting in increased consumption of bakery items and RTE food, and expanding retail and e-commerce sectors, are fuelling the Indian bakery market growth/demand.

Even though the pandemic hit the confectionary segment significantly reducing production, demand, and profits, the long-term outlook remains positive supported by favourable dynamics in the country. Furthermore, Indian packaged food (snacks) industry still has untapped segments and an underpenetrated rural market, which ensures growth prospects for the industry. In such a scenario, AFL's prospects will be driven by its ability to scale up its operations by increasing its geographical presence, getting into new segments, invest in R&D to meet the evolving consumer demand and further improving its brand image.

Liquidity: Adequate

The liquidity profile of the company is adequate characterized by cash accruals of Rs.2.96 crore vis-à-vis repayments obligation of Rs. 1.10 crore in FY23. Further, AFL has moderate cash balance of Rs 0.25 crore as of March 31,2023 and Rs.0.25 crore as on August 31,2023. With working capital utilization remaining full, there is very less cushion in case of increase in WC requirements. However, comfort is derived from the strength of promoters and track record of support demonstrated by way of infusion of funds to support the company in case of any shortfall.

Environment, social, and governance (ESG) risks: Not Applicable

Applicable criteria

[Policy on default recognition](#)

[Financial Ratios – Non financial Sector](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Credit Watch](#)

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[Policy on Withdrawal of Ratings](#)

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About the company and industry**Industry classification**

Macro Economic Indicator	Sector	Industry	Basic Industry
Fast Moving Consumer Goods	Fast Moving Consumer Goods	Food Products	Other Food Products

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 (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	June 30, 2023 (UA)
Total operating income	34.63	43.81	11.58
PBILDT	1.37	3.15	0.81
PAT	0.15	1.14	0.16
Overall gearing (times)	0.69	0.65	NA
Interest coverage (times)	2.43	4.63	5.40

A: Audited UA: Unaudited NA: Not Available; Note: 'the above results are latest financial results available'

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating history for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	1.80	CARE BB+; Stable
Fund-based - LT-Term Loan		-	-	March 31, 2027	8.41	CARE BB+; Stable

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021
1	Fund-based - LT-Cash Credit	LT	1.80	CARE BB+; Stable	-	1)CARE BB+; Stable (30-Sep-22) 2)CARE BB+ (CW with Developing Implications) (08-Jun-22)	1)CARE BB+; Positive (09-Aug-21)	1)CARE BB+; Stable (13-May-20)
2	Fund-based - LT-Term Loan	LT	8.41	CARE BB+; Stable	-	1)CARE BB+; Stable (30-Sep-22) 2)CARE BB+ (CW with Developing Implications) (08-Jun-22)	1)CARE BB+; Positive (09-Aug-21)	1)CARE BB+; Stable (13-May-20)

*Long term/Short term.

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

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

Annexure-5: Lender detailsTo view the lender wise details of bank facilities please [click here](#)

Note on the complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

Contact us

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About us:

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