DFM Foods Limited

October 31, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	78.36 (Reduced from 86.26)	CARE BBB; Negative	Reaffirmed
Long Term / Short Term Bank Facilities	20.00	CARE BBB; Negative / CARE A3	Downgraded from CARE BBB; Negative / CARE A3+

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

CARE Ratings Limited (CARE Ratings) has revised the short-term rating assigned to bank facilities of DFM Foods Limited (DFM) from CARE A3+ to CARE A3 while reaffirmed the long-term rating at CARE BBB; Negative. Revision in the rating reflects the lower-than-envisaged revenue and profitability reported in FY24 (refers to period April 01 to March 31) due to which the liquidity position of the company is stretched. CARE Ratings also takes note of the dependence on realisation of non-core assets and investments to service the debt obligations and believes that the debt repayments falling due ₹24 crore in FY25 and ₹17.85 crore in FY26 will be partially met through liquidity buffer of ₹23.70 crore available in form of mutual funds/FDR and unutilised working capital (WC) lines.

Ratings continue to derive strength from established brand name and market position of 'Crax' and its strong visibility in the northern region. CARE Ratings also takes cognisance of the improvement in profitability from negative 5.97% in FY23 to positive 1.31% in FY24 despite slight decline in revenue. Improvement in the operational performance of the company gradually with increased distribution network is a key credit monitorable. Further steps taken by management for ramp-up from Kolkata plant, cost optimisation initiatives undertaken, and efficient working capital management shall remain a key monitorable going forward.

However, these rating strengths continue to remain partially constrained by moderate capital structure and weak coverage indicators in line with subdued profitability of the company in the last few years, which also led to moderation in the company's liquidity profile and margins susceptible to raw material (RM) price fluctuations and intensive competition prevailing in the snacks industry.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Substantial rise in gross cash accruals (GCA) with increase in scale of operations and/or improvement in profitability to over ₹40 crore on a sustained basis.
- Improvement in profitability, leading to strengthening of the debt coverage metrics with profit before interest, lease rentals, depreciation, and taxation (PBILDT) interest coverage at least 3x and total debt (TD) to GCA below 4x sustainably.
- Significant equity infusion covering the losses and strengthening the overall gearing to below 0.25x on a sustained basis.

Negative factors

- Any debt-funded programme in the short term, resulting in an increase in total debt to GCA above 5x and the overall gearing by over 1x from FY25 onwards on a sustained basis along with moderation in the liquidity position.
- Inability of company to report growth in revenue and profitability.

Analytical approach: Standalone

Outlook: Negative

The 'Negative' outlook is due to lower-than-anticipated revenue and profitability in the current fiscal year as well, which exerts continued pressure on company's financial risk profile and liquidity position. Going forward, significant delay by the management to ramp-up the operations and cash generation shall be considered negative from credit perspective. Conversely, improvement in operating profitability and/or substantial improvement in the liquidity profile may lead to revision of outlook to 'Stable'.

Detailed description of key rating drivers:

Key strengths

Strong brand name with an established market position in northern India and wide distribution network

DFM introduced 'CRAX' (the company's flagship brand) in 1984, and with continued branding and marketing efforts, has established itself as a strong brand name in the Indian snacks segment for over three decades. The company enjoys a high brand recall value, offering over 22 distinct products in the snacks and namkeen segment. Initially, DFM focused on the children's market with its flagship product, Crax Rings, and a well-executed strategy of including in-pack gifts. However, the company has

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

strategically diversified its product portfolio over time to reduce its dependence on this segment and cater to a wider demographic. This diversification includes the introduction of namkeen and, more recently in FY25, it has introduced Crax Biggies to its product portfolio and added variations to its existing products. This expansion strategy is a testament to DFM's commitment to leveraging its established brand and consolidating its market position. It has a demonstrated presence in northern India and is actively pursuing expansion efforts in the East zone with a distribution network of over 2,200 distributors PAN-India.

Key weaknesses

Moderate capital structure despite weak coverage indicators

The company's capital structure stood moderate marked with overall gearing of 0.93x as on March 31, 2024 slightly improved from 0.99x as on March 31, 2023, interest coverage of 0.80x in FY24 compared to negative 3.74x in FY23. TD/GCA also reported high at 8.24x as on March 31, 2024. The improvement in gearing profile pertains to the improvement in profitability in FY24 despite the same remained significantly lower than the expected level.

DFM's revenue is concentrated mainly in the northern India from where it derived nearly 80% of its revenue in FY24 and 78% in FY23. In Q1FY24, it commercialised a new plant in Bagnan near Kolkata, West Bengal, to enhance the reach in the East Zone and save freight charges and to boost its manufacturing capabilities.

In FY24, the sales of the company declined by ~5% to ₹554.40 crore owing to slow ramp-up from east region and trade discounts, expiry claims which are offered by the company to remain competitive in the industry. However, in 5MFY25 till August 2024, the company has achieved revenue of ₹261 crore with PBILDT of ₹3.4 crore (i.e. 1.31%).

Susceptible operating margins due to cost fluctuations and intense competitive

The gross margins have shown improvement over the year at 44% for FY24 against 39% in FY23 and 37% in FY22. Gross margins reported in FY24 being the highest in the last five years. In FY24, the PBILDT levels also saw improvement as the company reported a positive PBILDT of ₹7.24 crore against -₹14.20 crore and -₹35.01 crore in FY22 and FY23, respectively. This improvement was largely because of the reduction in raw material prices, which saw palm oil prices reducing by 22.5% y-o-y. However, the palm oil prices are expected to rise in the current financial year in lieu of the hike in import duty imposed by government in Q2 of FY25 towards the import of crude and refined palm oil. This is expected to have an adverse impact on the company's profitability. Though the increased prices would lower margins for the company, it is expected that it would impact the unorganised players significantly.

Liquidity: Stretched

The liquidity position of DFM Foods stands stretched owing to lower GCAs against the repayment obligations for FY25. In H2FY24, the company's repayment obligations are ~₹13.5 crore, while in FY26, the company's term loan principal repayment of ₹16 crore is expected to fall due. Further there is planned maintenance capex of ~₹7 crore. However, the company has an efficient working capital cycle, as it operates on cash and carry model, and it can realise money from its debtors early. It has an average collection period of only three days against average creditor period of 56 days further it also has cash and cash equivalents of ₹23.70 crore including investments in the form FDs and mutual funds as on March 31, 2024 to fund its debt obligations. The average working capital utilisation of the company also stood moderate ~48%.

Applicable criteria

Definition of Default
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Manufacturing Companies
Financial Ratios – Non financial Sector
Short Term Instruments

About the company and industry

Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Fast-moving consumer goods	Fast-moving consumer goods	Food products	Other food products

DFM was established in 1983 and is engaged in manufacturing, distributing, and marketing packaged foods under well-known brand 'CRAX'. As on March 31, 2024, the company's total installed capacity is 45,296 MTPA, including the capacity added at the Kolkata plant. DFM is currently promoted by Advent International – a global private equity (PE) firm.

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (P)	5MFY25 (UA)
Total operating income	586.08	554.40	261.00
PBILDT	-35.01	7.24	3.40
PAT	-62.60	-11.60	NA
Overall gearing (times)	0.99	0.93	NA
Interest coverage (times)	-3.74	0.80	NA

A: Audited P: Provisional, UA: Unaudited, NA: Not available; Note: these are latest available financial results

Status of non-cooperation with previous CRA: The rating was downgraded to BB+/A4+ from BBB/ A3+ by CRISIL rating vide its PR dated November 30, 2023, due to non-receipt of information.

Any other information: Not applicable

Rating history for last three years: Annexure-2

Detailed explanation of covenants of rated instrument / facility: Annexure-3

Complexity level of 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 and Rating Outlook
Fund-based - LT-Term loan		-	-	30-09-2027	43.36	CARE BBB; Negative
Fund-based - LT-Working capital limits		-	-	-	35.00	CARE BBB; Negative
Fund-based/Non-fund-based-LT/ST		-	-	-	20.00	CARE BBB; Negative / CARE A3

Annexure-2: Rating history for 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 2024-2025	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
1	Fund-based - LT-Term loan	LT	43.36	CARE BBB; Negative	-	1)CARE BBB; Negative (04-Dec-23) 2)CARE BBB+; Stable (12-Sep-23)	1)CARE BBB+; Stable (23-Dec-22) 2)CARE A; Negative (03-Jun-22)	1)CARE A; Negative (14-Feb-22) 2)CARE A; Stable (25-Nov-21) 3)CARE A; Stable (05-Nov-21)
2	Fund-based/Non-fund-based-LT/ST	LT/ST	20.00	CARE BBB; Negative / CARE A3	-	1)CARE BBB; Negative / CARE A3+ (04-Dec-23) 2)CARE BBB+; Stable / CARE A2 (12-Sep-23)	1)CARE A2 (23-Dec-22) 2)CARE A1 (03-Jun-22)	1)CARE A1 (14-Feb-22) 2)CARE A1 (25-Nov-21) 3)CARE A1 (05-Nov-21)
3	Fund-based - LT-Working capital limits	LT	35.00	CARE BBB; Negative	-	1)CARE BBB; Negative (04-Dec-23) 2)CARE BBB+; Stable (12-Sep-23)	1)CARE BBB+; Stable (23-Dec-22) 2)CARE A; Negative (03-Jun-22)	1)CARE A; Negative (14-Feb-22) 2)CARE A; Stable (25-Nov-21) 3)CARE A; Stable (05-Nov-21)

LT: Long term; ST: Short term; LT/ST: Long term/Short term

Annexure-3: Detailed explanation of covenants of rated instruments/facilities: Not applicable

Annexure-4: Complexity level of instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Term loan	Simple
2	Fund-based - LT-Working capital limits	Simple
3	Fund-based/Non-fund-based-LT/ST	Simple

Annexure-5: Lender details

To view lender-wise details of bank facilities please click here

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

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About us:
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