Deepkiran Foods Private Limited

March 11, 2025

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term / Short-term bank facilities	17.00	CARE A; Stable / CARE A1	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

For arriving at ratings of Deepkiran Foods Private Limited (DFPL), CARE Ratings Limited (CARE Ratings) has taken a combined view of entities promoted by the Amin family, DFPL, and Innovative Cuisine Private Limited (ICPL; rated 'CARE A; Stable/ CARE A1'), together referred to as 'the group', due to their managerial, operational, and financial linkages.

Ratings assigned to bank facilities of DFPL continue to remain underpinned by the promoters' extensive experience in the processed food industry, established manufacturing setup with diversified product offerings, and assured off-take arrangement with the promoter group's flagship company - Deep Foods Inc. (DFI; which has an established presence in the processed food industry in the United States of America [US]). Ratings further derive strength from the group's healthy profitability, comfortable capital structure, strong debt coverage indicators, adequate liquidity, and favourable growth prospects for industry.

The ratings, however, continue to remain constrained on account of group's moderate scale of operations, dependence of raw material sourcing on vagaries of monsoon and high customer as well as geographical concentration of its revenue. The ratings are also constrained on account of the fixed price agreement with DFI, which exposes the group's profitability to volatility in raw material prices and foreign exchange rates.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Significant growth in scale of operations of the group marked by total operating income (TOI) of ₹500 crore and greater geographical diversification of sales.
- Profit before interest, lease rentals, depreciation and taxation (PBILDT) margin above 20% on a sustained basis by managing volatility associated with raw material prices and competitive pressures associated with venturing into newer geographies.
- Improvement in return on capital employed (ROCE) above 18% on a sustained basis.

Negative factors

- PBILDT margin falling below 15% on a sustained basis.
- Deterioration in overall gearing beyond 0.75x on a sustained basis.
- Any significant debt-funded capex undertaken by the company, which may result into weakening of its debt coverage indicators (deterioration of total debt to gross cash accruals [TD/GCA] beyond 2.5x).

Analytical approach: Combined

CARE Ratings has taken a combined view of DFPL and ICPL due to their managerial (common shareholding and directorships), operational (similar product portfolio of ready-to-eat [RTE] products), and financial (investment of DFPL in ICPL and unsecured loans extended by DFPL to ICPL as and when required) linkages. Details of the entities combined are shown in **Annexure-6.**

Outlook: Stable

Stable outlook reflects CARE Ratings' expectations that the group shall continue to benefit from its experienced promoters and an established presence in food processing industry and shall maintain its comfortable financial risk profile in near-to-medium term.

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

Detailed description of key rating drivers:

Key strengths

Extensive experience of the promoters in the processed food industry along with assured off-take arrangement
The founder directors of both the entities, Bhagwati Amin and Arvind Amin, possess more than four decades of experience in the processed food industry through their flagship company, DFI in US, which was established in 1977. Furthermore, they are assisted by experienced second-tier management in India for smooth functioning of manufacturing operations. DFI has a well-established production and distribution facility in the US and owns warehouses across 45 states in the US. DFPL and ICPL have an assured off-take arrangement for their entire production with DFI, which ensures a ready and assured market for the food products manufactured by the group.

Well-established operational set up and diversified product offerings
DFPL and ICPL have an operational track record of over two decades and over a decade, respectively. The manufacturing facilities of DFPL and ICPL, located in Gandhinagar and Vadodara, respectively, are certified by the United States Food and Drug Administration (USFDA), National Science Foundation (NSF) and ISOQAR – ISO 22000:2005. DFPL manufactures more than 85 RTE products through spiral freezing technique and has a wider product portfolio, whereas ICPL also offers more than 60 items with primary focus on export of cut vegetables and fruits through Individual Quick Freezing (IQF) technique apart from RTE products which it started in FY18. ICPL also added different type of curries and snacks in its portfolio in current year.

Healthy profitability; albeit moderate scale of operations
During FY24, TOI of the group registered y-o-y growth of 12.26% to ₹507.86 crore on the back of healthy demand, resulting in an increase in the sales volume and the group registered TOI of ₹429.35 crore in 9MFY25. However, its scale of operations has remained moderate. DFPL contributed ~52% of the group's TOI in FY24 (~52% in FY23), while the balance was contributed by ICPL. Combined operating profit (PBILDT) margin moderated to 17.07% in FY24 from 19.41% in FY23 and 14.56% in 9MFY25 with increase in cost of raw material in FY24 and 9MFY25, mainly in ICPL. The margins of the group were also impacted due to high inflation and recessionary conditions in US. Group is envisaged to register TOI ~₹560 crore in FY25 with an operating margin of ~15-17%.

Comfortable capital structure and strong debt coverage indicators
The group has a comfortable capital structure with an overall gearing of 0.13x as on March 31, 2024, due to minimal reliance on debt to fund its capex and working capital requirements. The group's cash and bank balance of ₹141.27 crore as of FY24-end exceeded its total outstanding debt as on that date. Low reliance on debt and healthy profitability led to strong debt coverage indicators with PBILDT interest coverage of 37.39x (PY: 43.25x) and TD/ GCA of 0.82x (PY: 0.70x) in FY24.

Continuous capex requirement; albeit minimum reliance on external debt
Group has a regular capex requirement for machinery addition / upgradation. Over last two years, ICPL undertook a capex for enhancement in its existing capacity and augmentation of its product portfolio through varieties of curries and snack items. The said capex also enhanced the storage capacity (dry warehouse and cold storage) of the unit. The project was completed with a total cost of ~₹55 crore including ₹36 crore term loan and remaining through internal accruals and commenced commercial operations in Q4FY24. Further, ICPL is in process of adding machinery for expansion in ready to eat products which is expected to get completed by Q2FY26 and the same will be funded entirely from internal accruals. DFPL also added new machinery in FY24 for introduction of automation to increase production efficiency and the same was funded through internal accruals.

Key weaknesses

Geographical and customer concentration of revenue profile
Over the years, major portion of the group's sales has been from the US. During FY24 as well as 9MFY25, the US accounted for 74% and 76% of the group's total sales, respectively. Consequently, group's operations remain susceptible to any event-based risk arising in the said country that may adversely impact the demand for its products. To mitigate this, both entities have started exports to other countries including Canada and Australia amongst others in past few years and are also focusing to gradually increase their presence in European countries; however, their combined contribution to total sales continued to remain limited (~24% during 9MFY25).
The customer concentration risk, too, remains high as majority revenue of the group is earned through sales to its flagship entity, DFI and its distribution companies. Any change in the market position of DFI on account of changes in the economic condition in the US market, emergence of new competitors or any adverse regulatory changes governing food trade, could also adversely impact the operations of the group.

Price volatility and availability risk associated with agro-based raw material

The group procures raw materials (agro-based commodities) from the open market and does not have any fixed price contracts with its suppliers. Agro-based commodities exhibit seasonality, and availability & pricing of raw materials is susceptible to the vagaries of monsoon. Furthermore, fruits and vegetables are perishable in nature and their demand is largely uniform throughout the year, which gives rise to the need for cold storage. On the other hand, sales price to DFI are fixed in advance on arm's length basis considering the prevailing trend of raw material pricing and other overheads. Hence, the company's profitability is exposed to any major adverse movement in the price of raw material during the year. However, the assured off-take arrangement with DFI at mutually decided rates considering the cost structure assures stable income and reasonable profitability for DFPL and ICPL.

Profitability susceptible to foreign exchange fluctuation risk

DFPL and ICPL are export-oriented units (EOUs) with over 95% of sales in the overseas markets, primarily the US, while raw materials are mainly procured indigenously and accordingly, the group is exposed to sudden adverse movements in the foreign exchange rate. However, DFPL uses bill discounting facility and ICPL uses packing credit in foreign currency (PCFC) for its working capital requirements, which insulates the companies from exchange rate volatility risk to a certain extent. The group partially hedges its forex exposure through forward contracts.

Liquidity: Adequate

The group had adequate liquidity with unencumbered cash and bank balance of ₹149.89 crore as on December 31, 2024, healthy cash flow from operations and low term debt repayment obligation.

The average utilisation of fund-based working capital limits remained moderate at 19.92% for DFPL and 88.34% for ICPL for the past 12 months ended December 2024.

The group reported a healthy cash flow from operations of ₹32 crore in FY24. The operating cycle remained stable at 75 days (PY: 73 days) in FY24. Inventory holding period in DFPL is lower than in ICPL since DFPL mainly manufactures RTE food where inventory is stored for a limited period, while ICPL's product profile also includes frozen fruits and vegetables which could be stored for a longer time period.

Applicable criteria

Consolidation
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

Gandhinagar-based DFPL was incorporated in 1998 by the US-based Amin family, who has presence in the processed food industry through their flagship company, DFI, headquartered in the US. DFI manufactures and markets a range of products (including frozen Indian food products) through its distribution companies in the US, Canada, and Australia. DFPL started commercial production in 2002. The company manufactures and exports its entire production of processed and RTE foods to multiple regional units of DFI and its distribution companies. The installed capacity as on December 31, 2024, stood at 20,000 metric tonne per annum (MTPA).

Brief Financials (₹ crore)-Combined	March 31, 2023 (UA)	March 31, 2024 (UA)	9MFY25 (Prov.)
Total operating income	452.42	507.86	429.35
PBILDT	87.80	86.70	62.52
PAT	57.34	52.87	NA
Overall gearing (times)	0.13	0.13	NA
Interest coverage (times)	43.25	37.39	NA

UA: Unaudited, Prov.: Provisional, NA:Not Available, Note: Note: these are latest available financial results

Brief Financials (₹ crore)-DFPL	March 31, 2023 (A)	March 31, 2024 (A)	9MFY25 (Prov.)
Total operating income	236.56	261.39	208.17
PBILDT	33.59	48.06	36.73
PAT	22.23	34.20	23.77
Overall gearing (times)	0.05	0.03	0.01
Interest coverage (times)	34.61	126.46	95.07

A: Audited, Prov.: Provisional, Note: Note: these are latest available financial results

Status of non-cooperation with previous CRA: None

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/ ST-Bill Discounting/ Bills Purchasing		-	-	-	17.00	CARE A; Stable / CARE A1

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/ ST-Bill Discounting/ Bills Purchasing	LT/ST	17.00	CARE A; Stable / CARE A1	-	1)CARE A; Stable / CARE A1 (18-Mar-24)	1)CARE A; Stable / CARE A1 (07-Feb-23)	1)CARE A; Stable / CARE A1 (06-Dec-21)
2	Non-fund-based - ST-BG/LC	ST	-	-	-	1)Withdrawn (18-Mar-24)	1)CARE A1 (07-Feb-23)	1)CARE A1 (06-Dec-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/ ST-Bill Discounting/ Bills Purchasing	Simple

Annexure-5: Lender details

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

Annexure-6: List of entities consolidated

Sr No	Name of the entity	Extent of consolidation	Rationale for consolidation
1	Innovative Cuisine Private Limited	Full	Operational and financial linkages

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:
Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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