Anjani Foods Limited

September 30, 2022

Rating

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	7.27 (Enhanced from 5.21)	CARE BB+; Stable (Double B Plus; Outlook: Stable)	Reaffirmed and removed from Credit watch with Developing Implications; Stable outlook assigned
Total Bank Facilities	**7.27 (₹ Seven Crore and Twenty-Seven Lakhs Only)**		

Details of instruments/facilities in Annexure-1.

Detailed rationale and key rating drivers

The removal of rating from Credit watch with Developing Implications and reaffirmation of the rating assigned to the bank facilities of Anjani Foods Limited (AFL) is upon receipt of clarity on the impact of formation of joint venture (JV) i.e., Senta Foodwork Private Limited on business and financial profile of AFL.

The ratings continue to be constrained due to decline in profitability levels and margins during FY22 [FY refers to period starting from April to March], profitability susceptible to raw material price fluctuations, moderate financial risk profile and intense competition in confectionary industry. CARE also considered recently published results for Q1FY23. The ratings, however, derive comfort from experienced and resourceful promoters, established regional presence of brand "Fresh Choice", favourable plant location, marginal growth in total operating income during FY22 and Q1FY23, comfortable leverage and debt coverage indicators, satisfactory operating cycle.

Rating sensitivities

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

- TOI improving to 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 – Factors that could lead to negative rating action/downgrade:

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

Detailed description of the key rating drivers

Key Rating Weakness

Decline in profitability levels and margins during FY22: The profitability of the company marked by PBILDT margin declined significantly to 3.96% (PY: 6.86%) despite 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. Given the expenses incurred during the second half of FY22 towards setting up the additional capacity and not much revenue earned from this plant coupled with increase in raw materials prices, PBILDT and PAT declined significantly in FY22.

Moderate Financial Risk Profile: The overall gearing ratio of the company with increase in the debt levels due to additional term loan of Rs. 2.50 crore and high working capital utilization stood at 0.86x as on March 31, 2022. 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 despite deterioration remained satisfactory at 2.46x in FY22. However, other debt coverage indicator total debt to GCA deteriorated significantly as of March 31, 2022 to about 7.23x when compared to 1.72x as of March 31, 2021 led by decline in GCA.

Profitability susceptible to volatility in raw material prices: 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.

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

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 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 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 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.

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, company has set up new production facility beside the existing facility in Visakhapatnam. All the units adding to mass production capacity will help the company to supply the bread, rusk, and other cookies to all its outlets. 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.

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.

Marginal growth in total operating income during FY22 and Q1FY23: The total operating income (TOI) of AFL marginally improved by 20.14% from Rs. 29.10 crore in FY21 to Rs.34.96 crore in FY22 owing to increase in per capita consumption driven by changing lifestyles, growing urbanization, and steadily rising affluence levels. The company has achieved 91% of TOI of projected revenue for FY22. Further, for Q1FY23, AFL reported revenue of Rs.11.07 crore which is about 22% of projected revenue for FY23. Growth is primarily driven by stable revenue from existing products and increase in revenue from newly added products such as Gelatos in confectionary segment and other revenue from retail food outlets.

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 has deteriorated from 9 days during FY21 to 17 days during FY22 due to increase in inventory levels. Given the increase in scale of operations, 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 industry outlook & prospects: The COVID-19 situation has led to strong demand for packaged foods, which is likely to continue in the near term. The long-term demand outlook is favourable on the expectations of increasing population, increase in per capita consumption, which in turn would be driven by changing lifestyles, growing urbanisation, and steadily rising affluence levels. With increase in demand in rural areas with investments in rural infrastructure development, extension of farm credit provisions, and focus on job creation will trigger a consumption boom and boost growth momentum, which is showing strong signs of recovery with COVID-induced disruptions having eased out entirely. 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, and further improving its brand image.

Liquidity: Stretched

With deterioration of financial profile of AFL, liquidity profile of the company is stretched characterized by cash accruals of Rs.1.20 crore vis-à-vis repayments obligation of Rs. 1.10 crore in FY23. Further, AFL has moderate cash balance of Rs 0.43 crore as of March 31, 2022. 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.

Analytical approach

Consolidated. Given that the company is now preparing consolidated statements including the newly formed JV, we are considering the consolidated approach as against the standalone approach considered at the time of last surveillance. The JV was formed in last week of March 2022 and hence in FY22, there is not much impact on the financials of AFL. Projections are based on consolidated basis.

Applicable criteria
Policy on default recognition
Consolidation
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
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 (₹ crore)	31-03-2021 (A)	31-3-2022 (A)	Q1FY23 (UA)
Total operating income	29.10	34.96	11.02
PBILDT	2.00	1.38	0.67
PAT	3.01	0.16	0.03
Overall gearing (times)	0.58	0.86	NA
Interest coverage (times)	4.79	2.46	NA

A: Audited; UA: Unaudited, NA: Not Applicable

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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

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

Complexity level of various instruments rated for this company: Annexure-4

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance	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	5.47	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 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based - LT-Cash Credit	LT	1.80	CARE BB+; Stable	1)CARE BB+ (CWD) (08-Jun-22)	1)CARE BB+; Positive (09-Aug-21)	1)CARE BB+; Stable (13-May-20)	-
2	Fund-based - LT-Term Loan	LT	5.47	CARE BB+; Stable	1)CARE BB+ (CWD) (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 the covenants of the rated instruments/facilities: Not Applicable

Annexure-4: Complexity level of various instruments rated for this company

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

Annexure-5: Bank lender details for this company

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

Note on 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.

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