

## DFM Foods Limited

February 25, 2020

### Ratings

| Facility                                   | Amount (Rs. crore)   | Rating <sup>1</sup>                                  | Rating Action  |
|--|--|--|--|
| Long-term Bank facilities<br>– Term Loan   | 81.56  | <b>CARE A; Stable</b><br>(Single A; Outlook: Stable) | Ratings removed from ‘under credit watch with developing implications’, ratings re-affirmed and outlook assigned as Stable |
| Long-term Bank facilities<br>– Cash Credit | 14.50  | <b>CARE A; Stable</b><br>(Single A; Outlook: Stable) | Ratings removed from ‘under credit watch with developing implications’, ratings re-affirmed and outlook assigned as Stable |
| Short-term Bank facilities                 | 16.33  | <b>CARE A1</b><br>(A one)                            | Ratings removed from ‘under credit watch with developing implications’, ratings re-affirmed and outlook assigned as Stable |
| <b>Total</b>                               | <b>112.39</b><br>(Rupees one hundred twelve crore and thirty nine lacs only) |  |  |

Details of facilities in Annexure-1

### Detailed Rationale & Key Rating Drivers

CARE has removed the ratings from ‘Credit Watch with Developing Implications’, re-affirmed of ratings and assign the outlook as ‘Stable’ of the bank facilities of DFM Foods Limited (DFMFL) following the closure of sale of stake of Promoter, PE Investor Westbridge Crossover fund LLC and other investors to AI Global Investments (Cyprus) PCC Limited (AIGIPL). AIGIPL has acquired 73.94% of the paid-up share capital.

The reaffirmation in the ratings assigned to bank facilities of DFM Foods Ltd (DFMFL) continues to derive strength from the strong brand name leading to established market position, robust marketing and distribution network with continuous product innovation. The rating also factors in comfortable financial risk profile of the company marked by healthy cash and bank balance & liquid investments and a low operating cycle.

The ratings are, however are constrained by geographical concentration and competition in the packed food market.

Going forward, the company’s ability to maintain its profitability margin and capital structure and increase its scale of operations through new product launches would remain the key rating sensitivities.

### Rating Sensitivities:

#### Positive Factors:

- Improvement in PBILDT Margins over 15% with improved TOI.

#### Negative Factors:

- Increase in overall gearing ratio beyond 1.

### Detailed Description of Key Rating Drivers

#### Key Rating Strengths

##### Strong brand name and established market position in northern India

DFM markets its products under the brand name “CRAX” and “NATKHAT” which has got strong recognition in the snacks category in the country. DFM has invested continuously in brand building and marketing activities. CRAX (corn ring) was one of the earliest readymade snacks that was launched in India in 1984 and thus over the years has established its strong brand name. The brand has visibility on television, with a special focus on channels aimed at children and in-pack gifts. In the namkeen segment, DFM offers a complete range of products consisting of 18 distinct product variants that include Bhujiyas, Daals, Mixtures and Nut-Mixes. In FY19, DFM launched 2 new products Fritts and Pasta Crunch. Crax Fritts registered revenue of Rs. 39.14 crore in FY19 itself (8% of TOI in FY19 and revenue from Curlys increased to Rs. 161.99 crore in FY19 from Rs. 118.69 crore in FY18.

##### Robust Marketing and Distribution Network

The products of DFM are sold in India through distributor mode and retail mode. In the distributor mode the products are sold directly to distributors of the company spread across the country which are directed onward to the retailer base. DFM is consciously increasing its distributor network in the country to increase its market reach. DFM is planning to expand its operations by entering in Tier-3 cities in Northern region.

As on June 30, 2019; DFM sold its products through 1441 Distributors spread across the country.

### Completion of project expansion

With effect from Oct 17, 2019, the Company has commissioned additional line having a capacity of 5000 MT per annum in Greater Noida. With this expansion, the company has two manufacturing facilities in Uttar Pradesh (Ghaziabad and Greater Noida) with the total capacity of the company at 48,400 M.T. per annum. The cost of this expansion was around Rs. 18 crore which was funded through internal accruals only.

### Financial risk profile

In FY19, the total operating income of the company increased by 13.71% to Rs. 483.62 crore (PY: Rs. 425.31 crore). This was primarily on account of addition of new product i.e. CRAX Fritts in FY19. CRAX Fritts was launched in Q3FY19 witnessing revenue of Rs. 39.14 crore (8% of Total Revenue in FY19). Apart from Fritts, the growing demand for curls also lead to improved Total Operating Income. CRAX Curls reported revenue of Rs. 161.99 crore in FY19 as compared with Rs. 118.69 crore in FY18. PBILDT margin of the company also improved to 13.42% in FY19 from 11.95% in FY18 due to fall in the average cost of production to Rs. 106.28 per kg in FY19 from Rs. 112.03 per kg in FY18.

The overall gearing of the company improved to 0.72x as on March 31, 2019 as compared with 0.91x as on March 31, 2018 which was primarily on account of improvement in net worth.

### Key Rating Weakness

#### Geographical concentration

During FY19, corn rings contributed 48% of the total income (PY: 61%), Curls contributed around 33% of total revenue and remaining revenue is earned from Fritts, Cheese balls, namkeen and Natkhat. Though, the company has geographical concentration, CRAX has been in existence for more than three decades and has developed acceptance among customers especially with the 6-10 years age group.

Furthermore, DFM revenue is concentrated in the Northern region of the country from where it derives around 75%-80% of its revenue. However, the company has been improving its distribution network in other parts of the country and has witnessed growth in revenue from other regions as well.

#### High Competition from other players

The company remains exposed to stiff competition from larger established companies and small regional players which have mushroomed across the country and has added to competitive intensity of the industry. Hence, the biggest challenge for the industry players would be scaling up their regional presence to a national level while maintaining highest quality standards. DFM has moderate scale of operations however, increasing but an established brand name enables DFM to have an edge over its competition.

#### Liquidity profile

DFM operates in the ready-to-eat snacks business which is a low working capital intensive segment as demonstrated by its negative operating cycle during FY19. DFM makes all its sales on cash basis and therefore has nil debtors. On the other hand the inventory holding is around 20-25 days whereas the credit period received is around 30-40 days which results in negligible/negative operating cycle. The average working capital utilization during the last 12 months ended June, 2019 remained comfortable at 19.54%.

**Analytical approach:** Standalone

#### Applicable Criteria

- [Criteria on assigning 'outlook' and 'credit watch'](#)
- [CARE's Policy on Default Recognition](#)
- [CARE's criteria for Short Term Instruments](#)
- [Rating Methodology-Manufacturing Companies](#)
- [CARE's methodology for financial ratios \(Non-Financial sector\)](#)

#### About the Company

DFM Foods Limited (DFMFL) was established in 1983 as part of diversification process of The Delhi Flour Mills Company Limited (TDFMCL, rated 'CARE BBB-; Under credit watch with developing implications, 'CARE A3'). The company is engaged in the business of manufacturing, selling, and marketing of packaged foods. DFMFL's products profile consists of 18 distinct product variants. The company markets Corn Rings and Wheat Puffs under the 'CRAX' and 'NATKHAT' brand names. 73.94% shareholding of the company is held by AI Global Investments (Cyprus) PCC Ltd. as on Feb 7, 2020, which is a subsidiary of U.S.-based private equity firm Advent International Corporation (AIC). AIC employs a long-established strategy of

operationally intensive, sector-focused investing across North America, Latin America, Europe and Asia. AIC group has a track record of over 350 private equity investments includes deals ranging from all-equity and leveraged buyouts to growth equity investments, public-to-private transactions and recapitalizations.

In FY19, DFMFL derived approximately 48% of its revenue from the Corn Rings and 33% of its revenue from Curls. The company had an installed capacity of 39,400 Metric Tonne (MT) per annum as on March 31, 2019.

| Brief Financials (Rs. crore) | FY18 (A) | FY19 (A) |
|------------------------------|----------|----------|
| Total operating income       | 425.31   | 483.62   |
| PBILDT                       | 50.83    | 64.92    |
| PAT                          | 23.31    | 32.76    |
| Overall gearing (times)      | 0.38     | 0.72     |
| Interest coverage (times)    | 5.07     | 6.11     |

**Status of non-cooperation with previous CRA:** Not Applicable

**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-Term Loan   | -                | -           | Sept 2027*    | 81.56                         | CARE A; Stable                            |
| Non-fund-based - ST-BG/LC   | -                | -           | -             | 16.33                         | CARE A1                                   |
| Fund-based - LT-Cash Credit | -                | -           | -             | 14.50                         | CARE A; Stable                            |

\*the company has multiple term loan, the given maturity date is the date of the last term loan.

#### 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 2019-2020  | Date(s) & Rating(s) assigned in 2018-2019 | Date(s) & Rating(s) assigned in 2017-2018 | Date(s) & Rating(s) assigned in 2016-2017 |
| 1.      | Fund-based - LT-Term Loan               | LT              | 81.56                          | CARE A; Stable | 1)CARE A (Under Credit watch with Developing Implications) (18-Sep-19)<br>2)CARE A; Stable (05-Aug-19) | 1)CARE A; Stable (17-Dec-18)              | 1)CARE A; Stable (05-Oct-17)              | 1)CARE A (12-Jul-16)                      |
| 2.      | Non-fund-based - ST-BG/LC               | ST              | 16.33                          | CARE A1        | 1)CARE A1 (Under Credit watch with Developing Implications) (18-Sep-19)<br>2)CARE A1 (05-Aug-19)       | 1)CARE A1 (17-Dec-18)                     | 1)CARE A1 (05-Oct-17)                     | 1)CARE A1 (12-Jul-16)                     |
| 3.      | Fund-based - LT-Cash Credit             | LT              | 14.50                          | CARE A; Stable | 1)CARE A (Under Credit watch with Developing Implications) (18-Sep-19)<br>2)CARE A; Stable (05-Aug-19) | 1)CARE A; Stable (17-Dec-18)              | 1)CARE A; Stable (05-Oct-17)              | 1)CARE A (12-Jul-16)                      |

**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](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

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### About CARE Ratings:

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