

## DFM Foods Limited

September 18, 2019

### Ratings

Facility	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Long-term Bank facilities – Term Loan	81.56	<b>CARE A; Under credit watch with developing implications (Single A; Outlook: Under credit watch with developing implications)</b>	<b>Rating put under credit watch</b>
Long-term Bank facilities – Cash Credit	14.50	<b>CARE A; Under credit watch with developing implications (Single A; Outlook: Under credit watch with developing implications)</b>	<b>Rating put under credit watch</b>
Short-term Bank facilities	16.33	<b>CARE A1; Under credit watch with developing implications (A one; Under credit watch with developing implications)</b>	<b>Rating put under credit watch</b>
<b>Total</b>	<b>112.39</b> <b>(Rupees one hundred twelve crore and thirty nine lacs only)</b>		

*Details of facilities in Annexure-1*

### Detailed Rationale & Key Rating Drivers

CARE has placed the ratings to the bank facilities of DFM Foods Limited (DFMFL) on 'Credit Watch with Developing Implications' following the intimation file on BSE regarding sale of stake of Promoter, PE Investor Westbridge Crossover fund LLC and other investors to AI Global Investments (Cyprus) PCC Limited (AIGIPL). AIGIPL is expected to acquire 68.13% of the paid-up share capital for a price of Rs. 249.50 per equity share in a cash deal. AIGIPL has also made an open offer for acquisition up to 26.00% of voting share capital of DFMFL from the public shareholders on September 09, 2019. CARE will continue to monitor the developments in this regard and will take a view on the ratings once the exact implications of the above on the credit risk profile of the company are clear.

The reaffirmation in the ratings assigned to bank facilities of DFM Foods Ltd (DFMFL) continues to derive strength from the experienced promoters, 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, increase its scale of operations through new product launches and completion of the cap-ex in the envisaged time would remain the key rating sensitivities.

### Detailed Description of Key Rating Drivers

#### Key Rating Strengths

##### Experienced Promoters

Mr. Mohit Jain is the Chairman cum Managing Director of DFM as well as Delhi Flour Mills Company Limited (DFMCL, group concern). He was instrumental in establishing the snack food business for the company in 1983 which is DFM Foods Limited and is associated with the food processing industry for over three decades now. He is supported by his son Mr. Rohan Jain, Deputy Managing Director of the company who has been engaged in the business for last ten years. The promoters hold 38.27% shareholding in the company, directly (5.72%) and through DFMCL (32.55%) as on June 30, 2019.

##### 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.

#### **Limited project execution risk, albeit addition of new line and new unit at Greater Noida plant**

The company had two manufacturing facilities in Uttar Pradesh (Ghaziabad and Greater Noida) with total installed capacity 39,400 MT per annum in FY19.

The company is undergoing two major cap-ex at their Greater Noida Plant; one is addition of one more line in their existing unit at Greater Noida and the other is setting up new unit for the production of existing products. The total cost of the project is Rs. 21.79 crore. The new line is expected to result in an additional capacity of 5,000 MTPA for the company. The Project is expected to be completed by Q2FY20.

The other cap-ex is for the setup of new unit at Greater Noida that is expected to result in an additional capacity of 5,000 MTPA. The total cost of the project is Rs. 50.92 crore. Both of the projects will be funded through the debt of Rs. 54.50 crore and remaining Rs. 18.21 crore through internal accruals.

Given the increasing demand and similar scale of operations for the product and steady capacity utilization year on year, the project off take risk is minimal.

#### **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.

#### **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%.

#### **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.

**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 \(Non-Financial sector\)](#)
- [CARE's methodology for Factoring Linkages in Ratings](#)

### About the Company

DFM Foods Limited (DFMFL) was established in 1983 as part of diversification process of Delhi Flour Mills Company Limited (DFMCL, rated 'CARE BBB-; Negative, '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. 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	-	-	September, 2027	81.56	CARE A (Under Credit watch with Developing Implications)
Non-fund-based - ST-BG/LC	-	-	-	16.33	CARE A1 (Under Credit watch with Developing Implications)
Fund-based - LT-Cash Credit	-	-	-	14.50	CARE A (Under Credit watch with Developing Implications)

### 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 (Under Credit watch with Developing Implications)	1)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 (Under Credit watch with Developing Implications)	1)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 (Under Credit watch with Developing Implications)	1)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:**

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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Our ratings do not factor in any rating related trigger clauses as per the terms of the facility/instrument, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and if triggered, the ratings may see volatility and sharp downgrades.

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