

## DFM Foods Limited

December 17, 2018

### Ratings

Facility	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Long-term Bank facilities – Term Loan	85.57	<b>CARE A; Stable</b> <b>(Single A; Outlook: Stable)</b>	<b>Reaffirmed</b>
Long-term Bank facilities – Cash Credit	14.50 (enhanced from 11.50)	<b>CARE A; Stable</b> <b>(Single A; Outlook: Stable)</b>	<b>Reaffirmed</b>
Short-term Bank facilities	16.33 (enhanced from 9.33)	<b>CARE A1</b> <b>(A one)</b>	<b>Reaffirmed</b>
<b>Total</b>	<b>116.40</b> <b>(Rupees One hundred sixteen crore and forty lacs only)</b>		

*Details of facilities in Annexure-1*

### Detailed Rationale & Key Rating Drivers

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 and increase its scale of operations through new product launches 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 March 31, 2018.

##### Strong brand name leading to established market position

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 high visibility on television, with a special focus on channels aimed at children and in-pack gifts. In the namkeens segment, DFM offer a complete range of products consisting of 12 distinct product variants that include Bhujiyas, Daals, Mixtures and Nut-Mixes. In March, 2017, DFM launches 2 new products Curls and cheese balls. Curls registered revenue of Rs. 119 crore in FY18 itself (27% of TOI in FY18). In Q3FY19, DFM launches another product CRAX Fritts which is a mixture of Potato and Corn Gritts.

##### 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 September 30, 2018; DFM sold its products through 1391 Distributors and 298,652 Retail chains spread across the country. The increase in retailers and distributors is primarily on western and southern regions.

##### Limited project execution risk, commissioning of Line up-gradation at Ghaziabad Unit

The company had two manufacturing facilities in Uttar Pradesh with total installed capacity 35300 MT per annum in FY18. At Ghaziabad plant, line up-gradation got commissioned in September, 2018 which will result in an additional capacity of 3800MT. Under line up-gradation, old line (produces 300kg/hour) will be replaced with new line (produces 5000kg/hour) which will result in an additional production of 200kg/hour. The additional capacity will be utilized in the production of CRAX Fritts. The cap-ex incurred for the project was Rs. 15 crore funded out of additional term loan of Rs. 14.10 crore and

the remaining is funded through internal accruals. The additional loan amounting to Rs.3.27 crore will be utilized for the purchase of fixed asset which will be used in the line up-gradation.

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

### Financial risk profile

In FY18, the total operating income of the company witnessed a growth of 23.85% to Rs.429.65 crore (PY: Rs.346.90 crore). This was primarily on account of addition of new product i.e. CRAX Curls in FY18. Further, in line with increased turnover and improved cost efficiency, PBILDT margin of the company also improved by 223 bps to 12.84% (PY: 10.61%). There was fall in average cost of production from Rs. 133.70 per kg in FY17 to Rs. 112.03 per kg in FY18. This was due to increase in gramage realization as gramage realization it is 50% more in curls than the other products. The overall gearing of the company improved to 0.91x as on March 31, 2018 (PY: 1.16x) which was primarily on account of improvement in net worth (accretion of profits) and repayment of debt. The company also has cash and cash equivalent balance of Rs.65.25 crore as on September 30, 2018 (Cash and Bank balance of Rs.12.47 crore and current investment (liquid) of Rs.52.78 crore).

### Comfortable 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 FY18. 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 September, 2018 remained comfortable at 50.37%.

### Key Rating Weakness

#### Geographical concentration, however diversifying in other regions

DFM earns majority of its revenue from CRAX corn rings which contributes around 80-85% of its total income. During FY18, corn rings contributed 61% of the total income (PY: 84%), Curls contributed around 27% of total revenue and remaining revenue is earned from Cheese balls, namkeen and Natkhath. 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. However, an established brand name enables DFM to have an edge over its competition.

**Analytical approach:** Standalone

#### Applicable Criteria

- [CARE's Criteria on assigning Outlook to Credit Ratings](#)
- [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 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 13 distinct product variants. The company markets Corn Rings and Wheat Puffs under the 'CRAX' and 'NATKHAT' brand names. In FY18, DFMFL derived approximately 61% of its revenue from the Corn Rings and 27% of its revenue from Curls. The company had an installed capacity of 35,300 Metric Tonne (MT) per annum as on March 31, 2018. The company also undertook line up-gradation of additional 3800 MTPA with a total cost of Rs. 15 crore to be funded through debt of Rs. 14.10 crore and internal accruals of Rs. 0.9 crore. The project has become operational in September, 2018 increasing the total installed capacity to 39100 Metric Tonne (MT) per annum.

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	346.90	429.65
PBILDT	36.82	55.17
PAT	18.46	23.31
Overall gearing (times)	0.56	0.38
Interest coverage (times)	8.20	5.51

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

**Any other information:** Not Applicable

**Rating History (Last three years):** Please refer Annexure-2

**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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**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	85.57	CARE A; Stable
Non-fund-based - ST-BG/LC	-	-	-	16.33	CARE A1
Fund-based - LT-Cash Credit	-	-	-	14.50	CARE A; Stable

**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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT-Term Loan	LT	85.57	CARE A; Stable	-	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 (05-Oct-17)	1)CARE A1 (12-Jul-16)	-
3.	Fund-based - LT-Cash Credit	LT	14.50	CARE A; Stable	-	1)CARE A; Stable (05-Oct-17)	1)CARE A (12-Jul-16)	-

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