Deepkiran Foods Private Limited

January 25, 2019

Ratings

Facilities	**Amount (Rs. crore)**	**Ratings[1]**	**Rating Action**
Long-term / Short-term Bank Facilities	17.00	**CARE A; Stable /CARE A1 (Single A; Outlook: Stable/ A one)**	Reaffirmed
Short-term Bank Facilities	0.50	**CARE A1 (A One)**	Reaffirmed
Total	**17.50 (Rupees Seventeen crore Fifty lakh only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

For arriving at the ratings of Deepkiran Foods Private Limited (DFPL), CARE has taken a combined view of entities promoted by Amin family viz. DFPL and Innovative Cuisine Private Limited (ICPL) (together referred to as a group) due to their managerial (common shareholding & directorships), operational [similar product portfolio i.e. Ready to Eat (RTE) products] and financial linkages (investment of DFPL in ICPL and unsecured loan extended by DFPL).

The ratings assigned to the bank facilities of DFPL continue to remain underpinned by the extensive experience of the promoters in the processed food industry, its state-of-the art manufacturing setup, diversified product offerings, along with assured off-take arrangement with the flagship company of the promoter group - Deep Foods Inc. (DFI; which has an established presence in the processed food industry in the USA). The ratings continue to derive strength from its healthy profitability along with growing scale of operations, comfortable capital structure and liquidity position, strong debt coverage indicators along favourable growth prospects for the processed food industry.

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

The ability of the group to increase its scale of operations through greater diversification of sales with healthy profitability along with maintaining its comfortable financial risk profile would be the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

Extensive experience of the promoters in the processed food industry along with assured off-take arrangement: The founder directors of both the entities, Ms Bhagwati Amin and Mr Arvind Amin, possess an experience of more than four decades in the processed food industry through their flagship company (DFI) in USA, which was established in 1977. DFI has a well-established production and distribution facility in the USA and owns warehouses across 45 states in USA. DFPL & ICPL have an assured off-take arrangement for their entire production with DFI, which ensures a ready and assured market for the products manufactured by the group.

Well-established operational set up along with diversified product offerings: DFPL has an operational track record of over a decade and 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.

While DFPL manufactures more than 65 RTE products through spiral freezing technique and has a wider product portfolio, ICPL is primarily focused on export of cut vegetables and fruits through Individual Quick Freezing (IQF) technique. However, during 9MFY19, the share of RTE products to the total exports of ICPL has increased notably with the commencement of its new production line.

Moderate albeit growing scale of operations along with healthy profitability: The total operating income (TOI) of the group increased by 6% to Rs.273 crore during FY18 (refers to the period April to March), with DFPL contributing approximately 66% of the group's TOI, while the balance 34% was contributed by ICPL.

As envisaged, the PBILDT margin of the group declined by 408 bps y-o-y to 19.80% during FY18 primarily on account of discontinuation of Transport subsidy scheme (TSS) during Q3FY17 by the central government. Furthermore, DFPL faced labour unrest during Q4FY18, which also impacted the profitability. The PAT margin of the group also declined by 566 bps y-o-y to 6.50% in FY18 on account of dip in PBILDT margin, higher depreciation charge and increase in interest cost on

[1]*Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.*

account of completion of debt-funded capex in ICPL. However, the group reported a healthy Gross Cash Accruals (GCA) of Rs.39 crore during FY18 (FY17: Rs.44 crore).
During 9MFY19 (refers to the period April to December), the group reported a TOI of Rs.254 crore, reflecting a healthy growth of 18% over that in 9MFY18. PBILDT margin also improved by 335 bps to 23.15% primarily on account of increase in proportion of better margin RTE products along with firming up of dollar during 9MFY19. With its new product line becoming operational, the ICPL added Tandoori Naans and Home-style Parathas in its product portfolio, which led to improvement in profit margins.

Comfortable capital structure along with healthy debt coverage indicators: The group has a conservative capital structure indicated by an overall gearing of 0.25x as on March 31, 2018 (0.32x as on March 31, 2017). The debt coverage indicators also remained healthy marked by an interest coverage of 16x and total debt to GCA of 1.52x during FY18.

Comfortable liquidity position: The group has a comfortable liquidity position marked by free cash and bank balances of Rs.76 crore as on March 31, 2018, which further increased to Rs.89 crore as on December 31, 2018, indicating substantial financial flexibility. The average utilisation of the group's fund-based working capital facilities during the trailing 12 months ending November 2018 also remained moderate at 79%. Also, the group reported a healthy cash flow from operations of Rs.54 crore during FY18 (FY17: Rs.56 crore). Debt repayment liability also remained low at Rs.13.60 crore in FY19, when compared with GCA generated in FY18. The group's current ratio and quick ratio as on March 31, 2018 remained healthy at 2.22x and 1.83x respectively along with comfortable working cycle at 72 days (FY17: 81 days).

Substantial addition to manufacturing capacities; which is expected to benefit in near future: During last three years ending March 2018, DFPL added fixed assets aggregating Rs.23 crore form automation in its production process, which was funded entirely through internal accruals. This automation helps the group to reduce its reliance on manual labour to achieve higher consistency, increase output and operate on an assembly line model. ICPL also undertook two large-size debt-funded expansion plans in a phased manner and its production capacity stood at 17,000 MTPA as on March 31, 2018.The Tandoori naan and paratha section commenced full-scale operations from April 2018 and contributed approx. Rs.11 crore to TOI during 9MFY19. Considering assured off-take arrangement with DFI and its distribution companies for the entire production, the salability risk is also mitigated to an extent.

Favorable growth prospects for processed food industry: The Ethnic Indian and Asian cuisine are becoming more popular amongst the millennial consumers who are more eager to try new foods and diversify eating habits. DFPL and ICPL are well positioned to benefit from this trend with its established range of Indian entrées and its growing range of Asian RTE foods. Furthermore, with a view to promote the sector, the government has been strengthening infrastructure by supporting creation of cold chain and mega Food Park under the Central Sector Scheme of Infrastructure Development.

Key Rating Weaknesses

Geographical and customer concentration of its revenue profile: During FY18, USA accounted for approximately 82% of sales of the group (85% in FY17), which exposes the group to geographical concentration of its revenue profile. The group has started exports to Canada and Australia (Melbourne) in recent years; however, their contribution to TOI remains low. Furthermore, to mitigate the geographical concentration risk, DFPL has also started exports to Singapore during 9MFY19.
The customer concentration risk, too, remains high as its entire revenue is earned through sale to its flagship entity 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, etc., could also adversely impact the operations and profitability of DFPL.

Price volatility and availability risk associated with its agro-based raw materials: 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 the availability and pricing of raw materials for processing is susceptible to the vagaries of monsoon. Furthermore, the fruits and vegetables are perishable in nature and its demand is more or less uniform throughout the year which gives rise to the need for cold storage.
On the other hand, sale prices 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 prices of raw materials during the year. However, the assured off-take arrangement with DFI at a mutually decided rates considering the cost structure insulates DFPL and ICPL from any major price variations.

Susceptibility of its profitability to foreign exchange fluctuation risk: DFPL and ICPL are 100% Export Oriented Unit (EOU) with entire sales in overseas markets, primarily USA, while the raw materials are mainly procured indigenously and the group is exposed to any sudden movements in the foreign exchange rate. However, DFPL uses bill discounting facility and ICPL uses PCFC in foreign currency for its working capital requirements, which insulates the companies from exchange rate volatility risk to a certain extent. Also, the group takes forward contracts to hedge the foreign currency exposure.

Analytical approach: Combined. Combined view of DFPL and ICPL has been taken due to their managerial (common shareholding & directorships), operational (similar product portfolio i.e. RTE) and financial linkages (investment of DFPL in ICPL).

Applicable criteria:
[Criteria on assigning Outlook to Credit Ratings]
[CARE's Policy on Default Recognition]
[CARE's methodology for manufacturing companies]
[Rating Methodology: Factoring Linkages in Ratings]
[Financial ratios - Non- Financial Sector]
[Criteria for Short Term Instruments]

About the Company
Gandhinagar-based DFPL was established in 1998 by the US-based Amin family. The Amin family has presence in the processed food industry through their flagship company, DFI which is headquartered in USA. DFI manufactures and markets a wide range of ready-to-eat frozen Indian food products throughout USA, Canada and Australia.
DFPL started commercial production in 2002. The company manufactures and exports its entire production of processed and RTE food to multiple regional units of DFI and its distribution companies in the USA, Canada and Australia. The installed capacity as on March 31, 2018 is 12,000 MTPA.

Brief Financials (Rs. crore) (Combined)	FY17 (A)	FY18 (A)
Total operating income	257.84	273.35
PBILDT	61.56	54.14
PAT	31.36	17.78
Overall gearing (times)	0.32	0.25
PBILDT Interest coverage (times)	34.88	15.99

Brief Financials (Rs. crore) (DFPL Standalone)	FY17 (A)	FY18 (A)
Total operating income	172.85	179.94
PBILDT	39.23	37.43
PAT	19.82	18.04
Overall gearing (times)	0.08	0.07
PBILDT Interest coverage (times)	60.25	50.76

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating History for 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. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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/ ST-Bills discounting/ Bills purchasing	-	-	-	17.00	CARE A; Stable / CARE A1
Non-fund-based - ST-BG/LC	-	-	-	0.50	CARE A1

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/ ST-Bills discounting/ Bills purchasing	LT/ST	17.00	CARE A; Stable / CARE A1	-	1)CARE A; Stable / CARE A1 (27-Mar-18) 2)CARE A; Stable / CARE A1 (13-Apr-17)	1)CARE A / CARE A1 (05-May-16)	1)CARE A / CARE A1 (08-Feb-16)
2.	Non-fund-based - ST-BG/LC	ST	0.50	CARE A1	-	1)CARE A1 (27-Mar-18) 2)CARE A1 (13-Apr-17)	1)CARE A1 (05-May-16)	1)CARE A1 (08-Feb-16)

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