

Ovobel Foods Limited

July 15, 2019

Rating

Facilities	Amount (Rs. crore)	Ratings ¹	Remarks
Short-term Bank Facilities	11.00	CARE A4 (A Four)	Assigned
Total Facilities	11.00 (Rupees Eleven Crore only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating assigned to the bank facilities of Ovobel Foods Limited (OFL) are tempered by working capital intensive nature of operations and competition from large number of players along with risk of contamination of the final product.

The rating, however, continue to derive strength from experienced promoter in the manufacturing of egg powder and related products with long track record of operations, improving and comfortable capital structure and debt coverage indicators, satisfactory profitability margins and increasing demand for egg powder and shift in the consumer preference in South East Asian and European countries towards egg powder and related products.

Going forward, the ability of the company to improve its scale of operations, maintaining profitability and capital structure along with effective management of working capital requirements remains the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Weaknesses

Modest scale of operation with fluctuating total operating income

The company was established in 1993 and the commercial operations started in 1996. The scale of operations of the company remained modest and fluctuating marked by Total operating income (TOI) of the company increased by ~12% and stood at Rs.112.12 crore in FY19 as against Rs.99.80 crore in FY18, Rs.80.57 crore in FY17 and Rs.114.90 crore in FY16 on back of increase in number of orders executed driven by improved demand outlook for egg powder, egg yolk powder and egg albumen powder in South East Asian and European countries. The decline in TOI in FY17 was because the factory was shut down for a part of year to undertake maintenance and upgradation of the plant.

Intense competition from large number of players along with risk of contamination of the final product

Over the past decade, developing nations such as Brazil, Argentina, Chile, and other such countries around the globe encountered a huge shift in consumption patterns, from carb-based food (such as grains, cereals, and rice) to protein-based foods (such as hens, fish, meat) fueling the demand for egg powder and resulting in an expansion of the animal feed industry and driving the demand for egg powder. There high risk of contamination associated with eggs and egg powder. Owing to poor hygienic conditions, there is always a risk of contamination in eggs, which would possibly degrade the quality of eggs and processed egg products.

Key Rating Strengths

Experienced promoter in the manufacture of egg powder with long track record of operations

The promoter Mr. Shanti Swarup, MD, holds a degree of Bachelor of Commerce and has a wide range of experience of over 33 years in the manufacture of food processing plants and has contributed towards hatchery and livestock feed as well. Over the years, OFL has established itself as a reputed manufacturer and exporter of egg powder in India and is one of the few egg powder and frozen egg manufacturers in the country.

The company, OFL, was set up in 1993 and commenced its operations in 1996 and due to its long-term presence in the market, OFL is able to establish long term relationship with customers and suppliers that include extended credit periods and sound base for procuring the eggs from the farmers in Karnataka.

Comfortable capital structure during review period, albeit fluctuating

The capital structure of the company marked by overall gearing, improved marginally and, stood comfortable at 0.57x as on March 31, 2019 as compared to 0.82x as on March 31, 2018, 1.25x as on March 31, 2017 and 1.03x as on March 31, 2016. The improvement in the overall gearing was on back of repayment of the term loan during the years and along with an increase in the net worth as on March 31, 2019 on back of accretion of Y-O-Y profits to the reserves of the company. The

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

improvement in the capital structure was on back of systematic repayment of the term loan during the years and along with an increase in the net worth as on March 31, 2018 due to the turn-around of losses from FY17. The company had incurred losses in FY17 as the factory was shut down for a part of year to undertake maintenance and upgradation of the plant resulting in under-absorption of fixed costs, high working capital utilization and lower amount of sales.

Satisfactory debt coverage indicators and profitability margins, although fluctuating

The debt coverage indicators marked by PBILDT interest coverage, increased and, stood comfortable, at 11.80x in FY19 as compared to 7.98x in FY18 on back of improved PBILDT in absolute terms along with reduction in the interest and finance costs during FY19.

The PBILDT margin of the company also improved by 172 bps to 9.16% in FY19 as against 7.44% in FY18 on back of improved margins on export orders and absorption of fixed overheads due to increase in scale of operations. The PAT margin also improved by 57 bps and stood at 5.05% in FY19 as compared to 4.48% in FY18 due to increase in PBILDT coupled with decrease in financial expenses and depreciation provision during FY19.

Comfortable working capital cycle

The company being in the manufacturing industry, requires high working capital requirement to meet its operations. The working capital cycle of the company improved and stood satisfactory at 61 days in FY19 as compared to 78 days in FY18 mainly due to reduction in average collection period and marginal reduction in average inventory period. With focus on improved receivables' management, the average collection period improved to 30 days in FY19 as against 41 days in FY18. The firm avails a credit period of 30-45 days for making payment to the creditors, however, makes payment within 8-15 days, hence the average creditor period stood at 11 days in FY19 and 8 days in FY18. The average inventory period stood at 41 days in FY18. The firm has a packing credit limit of Rs.2 crore and bill discounting of Rs.9 crore. The average utilization for the said facilities for the 12-month period ended June 30, 2019 was ~98%.

Increasing demand for egg powder and shift in the consumer preference to boost egg powder market growth

Manufacturers are focusing towards producing egg powder or dried egg products, owing to the increasing demand for egg powder in Western European countries and the Asia Pacific region. Companies are offering egg powder in accordance with its application in end-use verticals, and are also emphasizing on the nutritional content, quality, and shelf life of products. The increase in the rate of health-conscious people worldwide has helped boost the global egg powder market. Egg powder products also have a longer shelf life, which makes it an obvious choice among people. Another factor helping the market is an increase in the usage of egg powder in meat based products. As the price of meat keeps increasing, egg powder is considered a good alternative ingredient used in meat, as it is a well-known source of protein. This factor is believed to be an important driver in the growth of the egg powder market.

Liquidity position

The liquidity position, of the company, marked by current ratio and quick ratio of the company stood at 1.97x and 1.32x, respectively, as on March 31, 2019 as compared to 1.31x and 0.99x, respectively, as on March 31, 2018 due to relatively high account receivable and inventory compared to account payable and working capital bank borrowings. While the TD/CFO improved from negative in FY17 and FY16 to 0.89x in FY19, the unencumbered cash & bank balance as on March 31, 2019 was Rs.7.91 crore.

Analytical Approach: Standalone

Applicable Criteria

[Criteria on assigning Outlook to Credit ratings](#)

[CARE's Policy on Default Recognition](#)

[Criteria for Short Term Instruments](#)

[Financial ratios – Non-Financial Sector](#)

[Rating Methodology - Manufacturing Companies](#)

About the company

Bangalore, Karnataka based Ovobel Foods Limited was established in 1993 and is engaged in the business of processing and freezing of egg powder, egg yolk powder and egg albumen powder. The factory is situated in Bangalore and was constructed in collaboration with their holding company Ovobel NV in 1995-96. The company sources its raw material, ie; eggs, from local farmers that are approved under company monitoring for feed formula and good production practices. The company exports much of the finished goods to Indonesia, Vietnam among other Asian and European countries.

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	99.79	112.12
PBILDT	7.42	10.27
PAT	4.47	5.66
Overall gearing (times)	0.82	0.57
Interest coverage (times)	7.98	11.80

A-Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not applicable

Rating History for 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
Non-fund-based - ST-Bills Discounting / Bills Purchasing	-	-	-	9.00	CARE A4
Non-fund-based - ST-EPC/PCFC	-	-	-	2.00	CARE A4

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.	Non-fund-based - ST-Bills Discounting / Bills Purchasing	ST	9.00	CARE A4;	-	-	-	-
2.	Non-fund-based - ST-EPC/PCFC	ST	2.00	CARE A4;	-	-	-	-

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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