

August 31, 2023

Dry Blend Foods Private Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based/Cash credit	5.00	5.00	[ICRA] BBB (Stable); Reaffirmed
Total	5.00	5.00	

*Instrument details are provided in Annexure-I

Rationale

The rating reaffirmation of Dry Blend Foods Private Limited (DBFPL) factors in the extensive experience of promoters with an established track record of operations in the dry foods industry along with the healthy financial risk profile of the company. DBFPL's leverage is low with TD/OPBIDTA of 0.8x supported by limited debt levels of Rs. 4.9 crore as on March 2023 resulting in comfortable debt coverage metrics in FY2023, which are expected to sustain in FY2024 in the absence of any debt-funded capex plans. The rating also considers the wide range of products offered by DBFPL along with its association with reputed players in fast-food industry.

The rating, however, continues to remain constrained by the company's modest scale of operations with an operating income (OI) of Rs. 92 crore (provisional) in FY2023 and estimated in the range of Rs. 95-105 crore in FY2024 along with dependence on key customers as top five customers accounted for 40% of the total revenue in FY2023. The rating also considers the high dividend payouts in the past. The rating is also constrained by the intense competition from both organised as well as unorganised players in the dry blend food industry resulting in limited pricing flexibility. Going forward, any significant capital withdrawal in the form of dividend payout, affecting its liquidity profile, will be a key rating monitorable.

The Stable outlook on the [ICRA]BBB rating reflects ICRA's expectations that DBFPL will continue to benefit from its long and successful track record in the dry blend food industry, established relationship with large and reputed customers, and its comfortable capital structure.

Key rating drivers and their description

Credit strengths

Long track record of promoters in dry blend food industry – DBFPL and its promoters have more than two decades of experience in manufacturing bakery mixes and seasonings and is a part of Midas Food International which has aided the company to establish strong relationship with suppliers and customers. Midas Foods International started its operations in Michigan (the US) in 1980 and manufactures a wide variety of speed-scratch foods from sauces, gravies, bases and seasonings to sweet fillings, mousses, puddings and desserts for global manufacturers, fresh commissaries, frozen processors, and regional and international restaurant chains.

Healthy financial risk profile – DBFPL's leverage is low with TD/OPBIDTA of 0.8x supported by limited debt levels of Rs. 4.9 crore as on March 2023 resulting in comfortable debt coverage metrics in FY2023, which are expected to sustain in FY2024 in the absence of any debt-funded capex plans.

Association with reputed players and steady demand outlook for food industry – DBFPL's customer base comprises reputed players from the Indian food industry like Jubilant Foodworks Limited (JFL), Bakers Circle India Private Limited, Taj SATS Air Catering Limited, etc. A major share of revenues comes from JFL and its subsidiaries, which operate brands such as Domino's Pizza and Dunkin' Donuts. The sound credit profile of the customers along with repeat high value orders secured by the company from these mitigates the counterparty risk.

Credit challenges

Modest scale of operations and dependence on key customers – The scale of operations of DBFPL remains modest with an operating income (OI) of Rs. 92 crore (provisional) in FY2023 and estimated in the range of Rs. 95-105 crore in FY2024 along with dependence on key customers as top five customers accounted for 40% of the total revenue in FY2023.

Risks relating to large dividend payout – There were dividend payouts of Rs. 2.1 crore and Rs. 1.3 crore (provisional) in FY2022 and FY2023, respectively. Also, the company expects to pay dividend in the range of about Rs 1.2-1.5 crore in FY2024-FY2026. Going forward, any significant capital withdrawal in the form of dividend payout, affecting its liquidity profile, will be a key rating monitorable.

Intense competition in domestic dry blend food industry – The dry blend food industry in India is characterized by intense competition from various organised and unorganised players. This leads to highly competitive pricing of orders, thereby exerting pressure on the margins. However, DBFPL's long association with its customers helps to alleviate this risk to a certain extent.

Liquidity position: Adequate

DBFPL's liquidity position is adequate as marked by low debt outstanding with no major expansion plans. ICRA expects the company to generate healthy cash flows, which are expected to be sufficient in meeting its capex requirements of around Rs 2 crore in FY2024. The average utilization of working capital limits remains low at around 26% for trailing 15 months ending June 2023 which provides sufficient liquidity buffer.

Rating sensitivities

Positive factors – ICRA could upgrade the long-term rating if the company demonstrates a healthy and consistent improvement in its scale of operations and profitability resulting in a significant enhancement in the net-worth, while maintaining comfortable liquidity and debt protection indicators.

Negative factors – Negative pressure on the ratings could arise in case of a significant decline in scale or profitability. Additionally, any major debt-funded capex or high dividend payout or stretch in working capital cycle resulting in deterioration in leverage, liquidity or debt protection metrics could lead to rating downgrade. Specific metric which would exert pressure on the rating would be Total debt/OPBDITA rising above 3.0 times on a prolonged basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Not applicable
Consolidation/Standalone	Standalone

About the company

DBFPL was incorporated in 2008 and manufactures seasonings, premixes for cakes, desserts, brownies, etc, and caters to various customers such as JFL, Bakers Circle India Private Limited, Taj SATS Air Catering Limited, etc. A major portion of its revenues comes from premixes. The company's manufacturing facility is in Udham Singh Nagar (Uttarakhand). DBFPL is headed by Mr. S. S. Naroola who has over two decades of experience in the dry blend foods industry. The company is a part of Midas Foods International, which started operations in Michigan in 1980 and manufactures dry mousse mixes, whip toppings, puddings and other related food products for global manufacturers, fresh commissaries, frozen processors as well as regional and international restaurant chains.

Key financial indicators (audited)

DBFPL Standalone	FY2022	FY2023*
Operating income	76.5	92.1
PAT	3.7	4.4
OPBDIT/OI	8.0%	6.3%
PAT/OI	4.8%	4.8%
Total outside liabilities/Tangible net worth (times)	0.6	0.5
Total debt/OPBDIT (times)	0.0	0.8
Interest coverage (times)	51.5	86.7

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation, interest coverage ratio is calculated on OPBDIT; Source: Company annual reports, ICRA Research, *provisional

Status of non-cooperation with previous CRA: None

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2024)				Chronology of Rating History for the Past 3 Years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)* as of March 31, 2023	Date & Rating in	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021	
					August 31, 2023	June 03, 2022	April 05, 2021	-	
1	Fund-based/ Cash Credit	Long Term	5.0	4.4	[ICRA] BBB (Stable)	[ICRA] BBB (Stable)	[ICRA] BBB (Stable)	-	

Complexity level of the rated instrument

Instrument	Complexity Indicator
Long-term – Fund-based/Cash credit	Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: [Click Here](#)

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Long-term – Fund-based/Cash credit	-	-	-	5.00	[ICRA] BBB (Stable)

Source: Company

Annexure II: List of entities considered for consolidated analysis: Not Applicable

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