April 09, 2024

Falcon Agrifriz Foods Private Limited: [ICRA]BBB- (Stable)/ [ICRA]A3 assigned for BLR and [ICRA]BBB- (Stable) reaffirmed for Issuer rating

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Issuer Rating	-	-	[ICRA]BBB- (Stable); reaffirmed
Long Term – Fund Based – Term Loans	0.00	230.00	[ICRA]BBB- (Stable); assigned
Short Term – Non-Fund Based – Bank Guarantee	0.00	20.00	[ICRA]A3; assigned
Total	**-**	**250.00**	

**Instrument details are provided in Annexure-I*

Rationale

The ratings factor in Falcon Agrifriz Foods Private Limited's (FAFPL/the company) strong financial flexibility stemming from being a part of the larger Odisha-based Falcon Group; the project's financial closure and adequate liquidity; and healthy demand outlook over the medium term for its product categories. The Falcon Group, which includes Falcon Marine Exports Limited (FMEL, a reputed seafood exporter from India), holds 100% stake in the company through group entities and promoters in their individual capacity. The promoters are expected to extend adequate and timely financial support going forward as and when required. The company also has operational flexibility which supports it in establishing its supply chain and customer additions.

The construction of the project was commenced in February 2023 and is expected to be completed by October 2024. Of the total project cost of Rs. 402.2 crore, the promoters have infused Rs. 178.1 crore (as on March 28, 2024), while the remaining funds have been fully tied up. The company had drawn Rs. 130.8 crore of bank debt as on March 28, 2024 and the remaining is expected to be drawn over the next few months. It has adequate undrawn lines and its repayment of principal obligations on the debt will commence only from August 01, 2025.

However, the rating remains constrained by the exposure to risks arising from project cost and time overruns. Also, while the demand for the company's product categories would remain healthy over the medium term, aided by favourable demographics, rapid urbanisation, increasing purchasing power and preference for ready-to-eat snacks among other reasons, there are risks on the offtake front, given the competition in the industry and the company's lack of 'take-or-pay' agreements as on date. Further, while the manufacturing location is favourable, FAFPL is still in initial stages of establishing its supply chain as the timeline for manufacturing commencement is still about two quarters away. The company's coverage metrics would also remain weak in initial years of operations, impacted by its high debt levels compared to its revenues and profits. The improvement in coverage metrics would be tied to ramping up of operations and generation of healthy accruals.

ICRA also takes note of the ongoing litigations at the promoter and group level with respect to past income tax and other matters. ICRA will continue to monitor the developments and review the credit profile should there be any adverse outcome on the same.

Key rating drivers and their description

Credit strengths

Financial flexibility stemming from being part of the larger Falcon Group – Falcon Agrifriz Foods Private Limited (FAFPL) enjoys strong financial flexibility and lender/investor comfort by belonging to the Odisha-based Falcon Group, which includes Falcon Marine Exports Limited (a reputed seafood exporter from India). The Falcon Group holds 100% stake in the company through group entities and promoters in their individual capacity. The promoters have infused Rs. 178.1 crore equity as on March 28, 2024 for the project, and are expected to extend adequate and timely financial support going forward as well, as and when required. The company also has operational flexibility by belonging to the Group and this would support in establishing its supply chain and customer additions.

Project financial closure achieved; adequate liquidity – The construction of the project was commenced in February 2023 and is expected to be completed by October 2024. Of the total project cost of Rs. 402.2 crore, the promoters have infused Rs. 178.1 crore (as on March 28, 2024), while the remaining funds have been fully tied up. The company had drawn Rs. 130.8 crore of bank debt as on March 28, 2024 and the remaining is expected to be drawn over the next few months. It has adequate undrawn lines and its repayment of principal obligations on the debt will commence only from August 01, 2025. This apart, the promoters are expected to extend adequate and timely financial support going forward as well, as and when required.

Favourable location of plant and healthy demand outlook for the company's product categories – The project's proximity to in the potato cultivation belt of Mehsana, Gujarat will help in easier sourcing of raw materials. The project location is also near ports, which would aid in logistic advantages for exports. Further, the demand for the company's product categories would remain healthy over the medium term aided by favourable demographics, rapid urbanisation, increasing purchasing power and preference for ready-to-eat snacks among other reasons. The demand-supply dynamics also remain favourable. However, the company's ability to ramp up operations quickly amid competition, remains to be seen.

Credit challenges

Project exposed to execution, offtake and supply chain related risks - With the company still being at the project stage, it remains exposed to risks arising from cost and time overruns. Also, there are risks on the offtake front, given the intense competition in the industry and the company not having firm 'take-or-pay' agreements as on date. Further, while the manufacturing location is favourable, the company is still in initial stages of establishing its supply chain as the timeline for manufacturing commencement is still about two quarters away. However, the project being in its advanced stages, the healthy demand for the company's product categories and operating flexibility stemming from its parentage, mitigate the risk to an extent.

Revenues and margins exposed to agro-climatic risk and raw material availability – The availability of potatoes, a key raw material, is susceptible to agro-climatic conditions. Any large sluggishness in potato production owing to unfavourable agro-climatic conditions, in contrast to healthy growth in consumption of french fries/ready-to-eat potato snacks, could result in a demand-supply mismatch, driving up potato prices and thus impacting margins. Further, inability to produce adequate volumes because of raw material constraints could have a bearing on capacity utilisation and revenues. The favourable location of the plant would, however, prove advantageous to an extent.

High working capital intensity, given the relatively high inventory levels – As the potato cultivation season is typically around January - April, the company would be required to stock the raw material for the remaining part of the year to fulfil its annual requirement. This would result in elevated inventory levels for a large part of the year and relative high working capital needs.

Coverage metrics expected to remain weak in the initial years of operations – The company's coverage metrics would remain weak in initial years of operations, impacted by its high debt levels compared to its revenues and profits. The improvement in coverage metrics would be tied to ramping up of operations and generation of healthy accruals. However, the moratorium for repayment of principal obligations on debt till July 2025 and expected timely and adequate fund infusion from promoters, as and when required, provide comfort.

Liquidity position: Adequate

FAFPL's liquidity remains adequate, supported by undrawn term loan of ~Rs. 100 crore as on March 28, 2024 and absence of principal repayment obligation on term debt in FY2025. Further, the promoters have infused Rs. 178.1 crore as on March 28, 2024 for the project, and are expected to extend adequate and timely financial support going forward as well, as and when required. Against these sources of cash, the company has principal repayment obligations of Rs. 20.7 crore in FY2026 and Rs. 27.6 crore in FY2027 on sanctioned loans. It has a capex of ~Rs. 122 crore for the project in H1 FY2025. No significant capex is expected over the medium term, once the operations commence.

Rating sensitivities

Positive factors – ICRA could upgrade FAFPL's rating if the company is able to scale up its operations with healthy operating profitability.

Negative factors – Negative pressure on FAFPL's rating could arise if there are significant delays in completion of the project, leading to delay in scheduled commercial operations. Further, weakening in the parent's credit profile or absence of timely and adequate financial support from the parent, as and when required, would also be a negative trigger.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology – Fast Moving Consumer Goods (FMCG)
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered standalone financial profile of the FAFPL.

About the company

Falcon Agrifriz Foods Private Limited (FAFPL) is a project-stage company and is in the process of setting up a new unit for french fries (with capacity of ~240 MT/day) and other potato-based ready-to-cook (RTC) products like aloo tikki, patty etc (with capacity of ~48 MT/day) in Mehsana, Gujarat. The project is expected to commence commercial production from October 2024. The company has achieved financial closure for the project. Upon commencement, the company would have products under its own brand and would be able to provide white label packaging for other companies as well. FAFPL belongs to the larger Odisha-based Falcon Group, which includes Falcon Marine Exports Limited (a reputed seafood exporter from India). The Falcon Group holds 100% stake in the company through group entities and promoters in their individual capacity.

Key financial indicators – Not Applicable, as it is a project-stage company

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2025)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as of March 31, 2024 (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022
					Apr 09, 2024	Mar 31, 2024	-	-
1	Issuer Rating	Long term	-	-	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	-	-
2	Term Loans	Long term	230.00	130.81	[ICRA]BBB- (Stable)	-	-	-
3	Bank Guarantee	Short term	20.00	-	[ICRA]A3	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Issuer Rating	Not Applicable
Term Loans	Simple
Bank Guarantee	Very 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	**Issuer Rating**	NA	NA	NA	-	[ICRA]BBB- (Stable)
NA	**Term Loans**	FY2024	9%	FY2033	230.00	[ICRA]BBB- (Stable)
NA	**Bank Guarantee**	NA	NA	NA	20.00	[ICRA]A3

Source: Company

Please click here to view details of lender-wise facilities rated by ICRA

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

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About ICRA Limited:

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