Fair Exports (India) Private Limited

March 29, 2018

Summary of rated instruments

Instrument	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund based - Working Capital Facilities	195.0	195.0	[ICRA]A2; upgraded from [ICRA]A3
Term Loans	72.50	72.50	[ICRA]BBB+(Stable); upgraded from [ICRA]BBB-(Stable)
Total	**267.50**	**267.50**	

Rating action

ICRA has upgraded the long-term rating from [ICRA]BBB- (pronounced ICRA triple B minus) to [ICRA]BBB+ (pronounced ICRA triple B plus) for Rs. 72.50-crore term loans of Fair Exports (India) Private Limited (FEIPL). ICRA has also upgraded the short-term rating from [ICRA]A3 (pronounced ICRA A three) to [ICRA]A2 (pronounced ICRA A two) for Rs. 195.0-crore fund-based working-capital facilities of FEIPL. The outlook on the long-term rating is Stable.

Rationale

In assigning the rating, ICRA has taken a consolidated view of the financial and operational profile of FEIPL along with its 100% subsidiary – Amroon Foods Private Limited[1] (AFPL) – given their common promoters and line of business. These two are together referred to as the Fair Group or the Group.

The rating action factors in the steady revenue growth registered by the Fair Group in FY2017 and the current fiscal, supported by stabilisation of operations in its recently acquired facility in Maharashtra. Also, improvement in profit margins on the back of increasing economies of scale and low interest expenses support the ratings. These have translated into healthy cash accruals, leading to an improvement in gearing level and debt-protection metrics. Further the working-capital intensity of the business remained moderate on the back of steady customer advances and relatively short working-capital cycle. These factors, coupled with free cash balances, have continued to support the Group's liquidity position. Moreover, the ratings continue to take into consideration the Fair Group's strong parentage as a part of the Lulu Group, a well-established global business conglomerate with experience in hospitality, retail and commercial real-estate sector. Mr. Yusuff Ali M.A, the chairman of the Lulu Group, holds majority stake (81%) in the Fair Group. Additionally, the Fair Group benefits on account of its established operational track record and experience of its promoters in the buffalo meat industry, integrated nature (a prerequisite for exports), sizeable processing capacity and location of the Group's facilities in Uttar Pradesh and Maharashtra (major hubs for buffalo meat processing in India), which provides easy access to raw material. ICRA has also taken note of the proposed merger of AFPL with its parent – FEIPL – which is likely to happen in the current year.

1 Rated [ICRA]A2

The ratings, however, are constrained by intense competition in the industry which is accentuated by other major meat-exporting countries such as Brazil and Australia. Also, the commoditised nature of the business limits the profit margins for the Group. The ratings also take into consideration the Fair Group's exposure to foreign exchange rate volatility as most of the revenue is contributed to by exports. Moreover, the risk of disease outbreaks, politically- and socially-sensitive nature of the industry, which can disrupt the sourcing as well as processing of buffalo meat, are concerns. In addition, changes in trade policies as well as the political and economic scenario of key meat importing countries can add to the volatility in the industry. This is demonstrated by the moderation of growth in exports from India in recent years.

Going forward, the Group's ability to maintain its revenue growth and profitability margins amid competitive pressures would be the key rating sensitivities.

Outlook: Stable

ICRA believes that the Fair Group will continue to benefit from its established operational track record, extensive experience of its promoters and sizeable manufacturing capacity, which should enable it to register steady revenue growth and maintain profit margins. The outlook may be revised to Positive if substantial growth in revenue and profitability, and better working-capital management further strengthen the Group's financial risk profile. The outlook may be revised to Negative if cash accrual is lower than expected, or if any major debt-funded capital expenditure, or stretch in the working-capital cycle weakens liquidity.

Key rating drivers

Credit strengths

Established track record and experience of the Group in the industry – The Group has an established operational track record and its promoters have around two decades of experience in the buffalo meat industry.

Part of the well-established Lulu Group – Both FEIPL and AFPL benefit as a part of the Indian operations of the well-established Lulu Group, an international business conglomerate promoted by Mr. Yusuff Ali M.A.

Sizeable meat-processing capacity – Acquisition of the Malegaon facility in FY2017 increased the Group's meat-processing capacity to ~100,000 MT per annum. Operations in this facility have stabilised in the current fiscal, supporting the Group's revenue growth. Moreover, the Group's facilities are fully integrated, which helps it meet the requirements of importing countries.

Favourable location of the facilities – The Group's facilities are located in Uttar Pradesh and Maharashtra, which have sizeable buffalo population, ensuring easy availability of raw material.

Improvement in financial profile – As marked by the steady growth in revenue (consolidated revenue has increased Rs. 1850 crore in FY2017) and increase in profit margins, resulting in higher internal accrual generation and improvement in gearing level and debt-protection metrics.

Stable demand prospect of the industry – The demand prospects of the business in terms of growth opportunities in the export segment remain stable as India is among the leading buffalo meat exporters in the world.

Credit challenges

Intensely competitive industry – The highly fragmented and competitive in nature of the industry is accentuated by stiff competition from other major meat-exporting countries such as Brazil and Australia. This impacts the pricing flexibility of the industry participants including the Fair Group, which coupled with commoditised nature of the business, limits profitability.

Inherent business risks due to the sensitive nature of the business – The business to exposed to significant challenges on account of the risk of disease outbreaks in cattle population. Also, the industry is socially and politically sensitive in the country. Factors like these can impact the availability and processing of buffalo meat.

Vulnerability of profitability to adverse movement in foreign exchange rate – With exports contributing most (~95%) of the Group's revenues, its margins remain exposed to adverse movement in foreign exchange rate.

Exposure to political and economic scenario of importing countries – Given that most of the revenue is generated through exports, the industry participants remain exposed to changes in trade policies as well as political and economic scenario of key meat importing countries.

Analytical approach: In assigning the ratings, ICRA has taken a consolidated view of the financial and operational profile of FEIPL along with its 100% subsidiary – AFPL – given the common promoters and line of business. These two are together referred to as the Fair Group or the Group. Also for arriving at the ratings, ICRA has applied its rating methodology as indicated below.

Links to applicable criteria:

Corporate Credit Rating Methodology

About the company:

FEIPL processes and exports frozen buffalo meat and trades other items such as fruits, vegetables and garments. AFPL, a 100% subsidiary of FEIPL, also processes and exports frozen buffalo meat. FEIPL and AFPL have fully-integrated facilities in Uttar Pradesh and Maharashtra. The Group is part of the Indian operations of the well-established Lulu Group (EMKE Group) promoted by Mr. Yusuff Ali M.A. The Lulu Group is headquartered in Abu Dhabi.

In FY2017, the Group reported a net profit of Rs. 50.9 crore on an operating income (OI) of Rs. 1851.1 crore compared with a net profit of Rs. 33.8 crore on an OI of Rs. 1597.5 crore in the previous year.

Key financial indicators (audited) – Fair Group (Consolidated)

	FY2016	FY2017
Operating Income (Rs. crore)	1,597.5	1,851.1
PAT (Rs. crore)	33.8	50.9
OPBDIT/OI (%)	4.0%	5.4%
RoCE (%)	17.1%	20.3%
Total Debt/TNW (times)	1.7	1.8
Total Debt/OPBDIT (times)	3.5	3.3
Interest Coverage (times)	7.5	6.7

Source: *Company*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

		Current Rating (FY2018)				Chronology of Rating History for the past 3 years		
	Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating March 2018	Date & Rating in FY2017 Dec 2016	Date & Rating in FY2016 -	Date & Rating in FY2015 -
1	Fund based- Working Capital Facilities	Short Term	195.0	-	[ICRA]A2	[ICRA]A3	-	-
2	Term Loans	Long Term	72.50	72.50	[ICRA]BBB+(Stable)	[ICRA]BBB- (Stable)	-	-

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Fund based- Working Capital Facilities	-	-	-	195.0	[ICRA]A2
NA	Term Loans	2016	~9.0%	2022	72.50	[ICRA]BBB+(Stable)

Source: Fair Exports (India) Private Limited

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

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