

## Rating Advisory

April 30, 2020 | Mumbai

### Freshtrop Fruits Limited

#### Advisory as on April 30, 2020

This rating advisory is provided in relation to the rating of Freshtrop Fruits Limited

The key rating sensitivity factors for the rating include:

- Profitability and revenue
- Capital expenditure (capex) plans and their funding
- Demand offtake risk in the new fresh fruit juice segment
- Working capital management

CRISIL Ratings has a policy of keeping its accepted ratings under constant and ongoing monitoring and review. Accordingly, it seeks regular updates from companies on business and financial performance. CRISIL is yet to receive adequate information from Freshtrop Fruits Limited (FFL) to enable it to undertake a rating review. CRISIL is taking all possible efforts to get the rated entity to cooperate with its rating process for enabling it to carry out the rating review.

CRISIL views information availability risk as a key factor in its assessment of credit risk. (Please refer to CRISIL Ratings publication dated April 30, 2012 - 'Information Availability - a key risk factor in credit ratings')

If FFL continues to delay the provisioning of information required by CRISIL to undertake a rating review then, in accordance with circular SEBI/HO/MIRSD/MIRSD4/CIR/P/2016/119 dt Nov 1, 2016 and SEBI/HO/MIRSD/ MIRSD4/ CIR/ P/ 2017/ 71 dt June 30, 2017 issued by Securities and Exchange Board of India, CRISIL will carry out the review based on best available information and issue a press release.

#### About the company

FFL, promoted by Mr Ashok Motani, was incorporated as a private limited company on September 30, 1992 and reconstituted as a public limited company on September 22, 1994. The Ahmedabad-based company exports fresh fruits (majorly grapes) and processed fruits, and is currently setting up a unit to manufacture fresh juices.

*Please note: This advisory should not be construed as a rating reaffirmation.*

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## Rating Rationale

July 25, 2019 | Mumbai

### Freshtrop Fruits Limited

*Rating Reaffirmed*

#### Rating Action

<b>Total Bank Loan Facilities Rated</b>	<b>Rs.56 Crore</b>
<b>Long Term Rating</b>	<b>CRISIL BBB/Stable (Reaffirmed)</b>

1 crore = 10 million

Refer to annexure for Details of Instruments & Bank Facilities

#### Detailed Rationale

CRISIL has reaffirmed its 'CRISIL BBB/Stable' rating on the bank facilities of Freshtrop Fruits Limited (FFL). The rating continues to reflect the promoter's extensive experience in the fresh fruit segment, and FFL's healthy financial risk profile and moderate operating margin. These strengths are partially offset by working capital intensity in operations, and exposure to seasonality in availability of fruits and vegetables, and to intense competitive pressure.

## Key Rating Drivers & Detailed Description

### **Strengths**

\* **Extensive experience of the promoter:** Benefits from the extensive experience of the promoters, and established relationships with over 1000 farmer-members in the Nashik region, and reputed customers in the domestic and overseas markets, will continue. The company has access to 1000 hectares of grape cultivation, which ensures a regular supply. Key customers include ASDA (part of the Walmart family), Albert Heijn, Pepsico, and ITC Ltd (rated CRISIL AAA/Stable/CRISIL A1+).

\* **Healthy financial risk profile:** Networth and gearing were healthy at Rs 77 crore and 0.5 time, respectively, as on March 31, 2019. Gearing will remain less than 1 time over the medium term despite working capital intensity around year-end. Debt protection metrics are healthy: interest cover exceeded 18 times and net cash accrual to total debt was 0.44 time in fiscal 2019.

\* **Moderate operating margin: Operating margin has been moderate in the four years through March 2019**, backed by improvement in operating efficiency and realisation from grapes. Despite seasonality in availability of fruits and vegetables, the margin has been steady above 10%. Enterprise resource planning and supply chain management systems facilitate tracking of farm inputs and production.

### **Weaknesses**

\* **Working capital intensity during peak period: Gross current assets of 219 days, as on March 31, 2019, reflect working capital intensity, mainly due to the moderate receivables and inventory.** The company generally offers credit of 60 days to customers in Europe, and cash against documents to those in Russia. While inventory is low (less than 10 days) for grape processing, as the product is dispatched on a daily basis, goods-in-transit is high. However, the company has to maintain inventory of 60 days (including WIP and finished goods), for other fruits. Given the seasonal nature of grape exports, almost 80% of sales happens between January and April every year. Credit of 60-75 days, offered by suppliers, partly eases the pressure on working capital. Hence, efficient management of working capital, especially during the peak season, will be a key rating sensitivity factor.

\* **Exposure to seasonality in the fruits and vegetables processing industry:** The company remains susceptible to volatility in the prices of agro commodities such as grapes and pomegranates. Also, availability of fruits and vegetables is highly dependent on monsoon and other climatic conditions, which will remain a key rating sensitivity factor over the medium term.

\* **Intense competitive pressure:** FFL has to compete with large, organised and unorganised players, which limits pricing power with customers. Also operations in the fruit juice segment commenced only in the second half (H2) of fiscal 2019, and the segment's contribution to the topline was less than 5%. Stabilisation and ramp-up in operations in the juice business will be a key rating sensitivity factor.

### Liquidity

The company has adequate liquidity. Annual accrual is expected at Rs 17-20 crore, and should comfortably cover maturing debt of around Rs 5 crore per annum. Bank limit of Rs 36 crore has had negligible utilisation during the offseason, but is moderately utilised (around 50%) during the peak season, despite working capital intensity in operations. Healthy liquid investments, with bank balance and mutual funds of over Rs 10 crore also supports liquidity as on March 31, 2019. Current ratio was healthy at 1.46 times.

### Outlook: Stable

CRISIL believes FFL will benefit over the medium term from the extensive experience of its promoters and healthy financial risk profile. The outlook may be revised to 'Positive' in case of significant and sustained rise in accruals, mostly through ramp-up in the juice business, while maintaining a stable capital structure. The outlook may be revised to 'Negative' if operating profitability is adversely affected by entry into new business segments, or if financial risk profile weakens on account of stretched working capital cycle or higher-than-expected debt-funded capex.

## About the Company

Incorporated as a private limited company in September 1992, in Ahmedabad by Mr Ashok Motiani and reconstituted as a public limited company on September 22, 1994, FFL exports fresh fruits (majorly grapes) and processed fruits. The company has recently ventured into the fresh juices business.

## Key Financial Indicators

As on / for the period ended March 31		2019	2018
Operating income	Rs. crore	172	176
Reported profit after tax	Rs. crore	13.7	8.3
PAT margins	%	8.0	4.7
Adjusted Debt/Adjusted Net worth	Times	0.5	0.68
Interest coverage	Times	18.3	22.7

**Any other information:** Not applicable

## Note on complexity levels of the rated instrument:

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## Annexure - Details of Instrument(s)

ISIN	Name of Instrument	Date of Allotment	Coupon Rate (%)	Maturity Date	Issue Size (Rs Cr)	Rating Assigned with Outlook
NA	Cash credit	NA	NA	NA	21.00	CRISIL BBB/Stable
NA	Export packing credit	NA	NA	NA	15.0	CRISIL BBB/Stable
NA	Long term loan	NA	NA	30-Sept-23	20.00	CRISIL BBB/Stable

## Annexure - Rating History for last 3 Years

Instrument	Type	Current		2019 (History)		2018		2017		2016		Start of 2016
		Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund-based Bank Facilities	LT/ST	56.00	CRISIL BBB/Stable			23-04-18	CRISIL BBB/Stable	31-01-17	CRISIL BBB/Stable		--	--

All amounts are in Rs.Cr.

## Annexure - Details of various bank facilities

Current facilities			Previous facilities		
Facility	Amount (Rs.Crore)	Rating	Facility	Amount (Rs.Crore)	Rating
Cash Credit	21	CRISIL BBB/Stable	Cash Credit	21	CRISIL BBB/Stable
Export Packing Credit	15	CRISIL BBB/Stable	Export Packing Credit	15	CRISIL BBB/Stable
Long Term Loan	20	CRISIL BBB/Stable	Long Term Loan	20	CRISIL BBB/Stable
<b>Total</b>	<b>56</b>	<b>--</b>	<b>Total</b>	<b>56</b>	<b>--</b>

## Links to related criteria

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