

## Rating Advisory

April 13, 2022 | Mumbai

### Mrs.Bectors Food Specialities Limited

**Update as on April 13, 2022**

This rating advisory is provided in relation to the rating of Mrs.Bectors Food Specialities Limited

The key rating sensitivity factors for the rating include:

#### Upward factors

- Substantial increase in scale of operations and rise in operating profitability to 13-15%, leading to healthy cash generation of over Rs 200 crore
- Improved market share through geographical and product expansion
- Build-up of cash surplus while maintaining gearing and capital structure

#### Downward factors

- Sluggish revenue and moderation in operating profitability below 10%
- Weakening of capital structure due to substantially large, debt-funded capex or acquisition

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 Ratings is yet to receive adequate information from Mrs.Bectors Food Specialities Limited (MBFSL) to enable it to undertake a rating review. CRISIL Ratings 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 Ratings views information availability risk as a key factor in its assessment of credit risk. (Please refer to CRISIL Ratings' criteria available at the following link, [https://www.crisil.com/content/dam/crisil/criteria\\_methodology/basics-of-ratings/assessing-information-adequacy-risk.pdf](https://www.crisil.com/content/dam/crisil/criteria_methodology/basics-of-ratings/assessing-information-adequacy-risk.pdf))

If MBFSL continues to delay the provisioning of information required by CRISIL Ratings to undertake a rating review then, in accordance with circulars SEBI/HO/MIRSD/MIRSD4/CIR/P/2016/119 dt Nov 1, 2016, SEBI/HO/MIRSD/ MIRSD4/ CIR/ P/ 2017/ 71 dt June 30, 2017 and **SEBI/HO/MIRSD/CRADT/CIR/P/2020/2 dt January 3, 2020** issued by Securities and Exchange Board of India, CRISIL Ratings will carry out the review based on best available information and issue a press release.

#### About the Company

Ms Rajni Bector set up MBFSL as a joint venture (JV) with Quaker Oats, the USA (now a subsidiary of PepsiCo Inc) to supply packaged ketchup to McDonald's, in addition to buns, batter, and bread. Quaker Oats withdrew from the JV in 1999. In fiscal 2014, the company underwent a business reorganisation and demerged its food supplements (sauces, spreads, and namkeen) division.

MBFSL operates in three segments: it sells biscuits under the Mrs. Bectors Cremica brand. It also sells buns and other bakery items to KFC, Burger King. It supplies bread and bakery items under its English Oven brand and English Oven brands to modern retail chains (Easy Day, Reliance Retail, Big Bazaar, More, and Spencer's) and distributors. MBFSL is the sole supplier of buns to McDonald's in India.

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For the six months through September 2020, the company reported an EBITDA (earnings before interest, taxes, depreciation, and amortisation) of Rs 79.6 crore (Rs 40.6 crore for the same period previous fiscal) on net sales of Rs 438 crore (Rs 366 crore).

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## Rating Rationale

February 01, 2021 | Mumbai

### Mrs.Bectors Food Specialities Limited

*Ratings upgraded to 'CRISIL AA- / CRISIL A1+' ; outlook revised to 'Stable'*

#### Rating Action

<b>Total Bank Loan Facilities Rated</b>	<b>Rs.270 Crore</b>
<b>Long Term Rating</b>	<b>CRISIL AA-/Stable (Upgraded from 'CRISIL A+ / Positive' and outlook revised to 'Stable')</b>
<b>Short Term Rating</b>	<b>CRISIL A1+ (Upgraded from 'CRISIL A1')</b>

1 crore = 10 million

Refer to Annexure for Details of Instruments & Bank Facilities

#### Detailed Rationale

CRISIL Ratings has upgraded its ratings on the bank facilities of Mrs.Bectors Food Specialities Limited (MBFSL) to '**CRISIL AA-/Stable/CRISIL A1+**' from 'CRISIL A+/Positive/CRISIL A1'.

The upgrade is driven by the sustained improvement in the company's business and financial risk profiles. Business risk profile has benefited from improving geographical diversity, facilitated by strengthening of distribution network and addition of capacities. This, along with recovery in export demand, led to a healthy revenue growth of 19.6% in the first-half of fiscal 2021. Strong brand portfolio, recovery in demand, new product launches and expansion in capacities will support continued growth over the medium term. Diversity in the biscuits (estimated to account for 60% of overall revenue in the current fiscal) and bakery segments (35%) will also support growth. Operating profitability is expected to improve in fiscal 2021 on the back of better absorption of fixed costs with improved capacity utilisation, and cost-rationalisation initiatives.

Financial risk profile is expected to remain comfortable with fresh equity infusion of Rs 40.5 crore through initial public offering and limited dependence on external debt. Annual cash accrual are expected to strengthen in fiscal 2021 and improve further in the next two fiscals, driven by better scale and profitability. Debt metrics remain healthy, with expected return on capital employed of around 20% in fiscal 2021, which is expected to sustain at similar levels over the medium term. Given moderate capital expenditure (capex) over the next three fiscals and healthy cash accrual, reliance on external debt is expected to remain low.

The ratings reflect MBFSL's strong market presence with high recall of the Mrs. Bectors Cremica brand of biscuits and English Oven brand of bakery products in North and Northwest India; improving revenue diversity; established relationships with large customers, McDonald's, and Mondelez International Inc; and a comfortable financial risk profile because of robust capital structure and debt protection metrics. These strengths are partially offset by a modest scale of operations in the intensely competitive biscuits industry and susceptibility to volatility in raw material prices and foreign exchange (forex) rates.

#### Analytical Approach

For arriving at its ratings, CRISIL Ratings has combined the business and financial risk profiles of MBFSL and its wholly owned subsidiary, Bakebest Foods Pvt Ltd (Bakebest; rated 'CRISIL A/Stable'), because of their strong operational and financial linkages.

Please refer Annexure - List of entities consolidated, which captures the list of entities considered and their analytical treatment of consolidation.

#### Key Rating Drivers & Detailed Description

##### Strengths:

- **Strong presence of brands in North and Northwest India and improving revenue diversity**

MBFSL earns 90% of its biscuit revenue from North and Northwest India and is among the top three biscuits manufacturers in most of the states (Punjab, Haryana, Himachal Pradesh, Jammu & Kashmir, Uttar Pradesh, Uttarakhand, and Delhi

National Capital Region). The company distributes across 23 states in India through a network of 196 super stockists and 748 distributors that supply to a wide range of clients through 458,000 retail outlets and 4,422 preferred outlets.

Furthermore, the company has been increasing its premium product portfolio and leveraging its presence with focus on high-margin biscuits such as cookies, creams and crackers; and reduced dependence on low-margin glucose biscuits. Strong growth in the bakery segment is reflected in its contribution of 35-37% to the overall revenue in fiscal 2021. The English Oven is among the leading premium bakery brands in India. With addition of new lines and new products (premium breads, croissants, buns), the growth is likely to continue over the medium term.

- **Established relationships with large institutional players**

The company remains a preferred supplier of buns (for the past 15 years) to McDonald's (Hardcastle Restaurants Pvt Ltd in West and South, Connaught Plaza Restaurants Pvt Ltd in North and East), Burger King, and KFC (Devyani International Pvt Ltd). It is also targeting new quick-service restaurants, supported by continued focus on quality. Longstanding relations with large institutional customers have resulted in a steady source of revenue over the past few years. MBFSL also supplies to Domino's Pizza and Wendy's.

Exports are expected to rebound in fiscal 2021, after a slight decline in previous fiscals due to political instability in certain African countries, mainly driven by improved demand and healthy share of Indian biscuits in the exports market. The company also undertakes job work manufacturing for Mondelez International Inc.

Established customer relationships should continue to provide stability to operating income and profitability, given the revenue visibility and cost-plus profitability built into long-term contracts.

- **Strong financial risk profile**

Financial risk profile continues to remain strong, with a healthy expected net-worth in fiscal 2021, low gearing of below 0.4 times as on March 31, 2020, and robust debt protection metrics with cash accruals expected to be Rs 90-100 crore in the current fiscal. Interest cover and NCA/TD are expected to improve further from 6.2 times and 51% in fiscal 2020 respectively. Gearing has improved on a sustained basis over the last 3 fiscals from 0.5 time in 2018 to an expected 0.27 time in fiscal 2021. Going forward gearing is expected to remain in range of 0.2-0.3 time over the medium term.

**Weaknesses:**

- **Modest, though improving, scale of operations in an intensely competitive biscuit industry**

MBFSL is a relatively small player in the biscuits industry vis-à-vis other manufacturers, with estimated revenue of about Rs 765 crore for fiscal 2020. Although the Cremica brand has an established presence in North and Northwest India, it has limited presence in other parts of the country. Furthermore, the biscuit industry is intensely competitive, with large players (such as Britannia; rated 'CRISIL AAA/Stable/CRISIL A1+') vying for a greater market share. With the entry of ITC, Mondelez, and Unibic, the competition has intensified across product categories.

- **Susceptibility to changes in raw material prices and forex rates**

The biscuits segment, accounting for nearly two-thirds of the company's total revenue, is price-sensitive with little product differentiation, especially in the low-end biscuits segment. Thus, players have limited ability to pass on increase in input prices (wheat, sugar, and oil; form 50-60% of total costs) to customers. Operating profitability will likely remain exposed to sharp fluctuations in raw material prices and forex rates. Though the company undertakes forward contracts to hedge against forex risk, it is able to pass on price rise to consumers only with a time lag.

**Liquidity: Strong**

MBFSL has a strong liquidity profile on account of healthy expected cash accruals and robust debt protection metrics. Cash accruals are expected to improve further in next 2 fiscals and will be adequate for moderate capex and debt repayments. MBFSL has also pre-paid its term loan obligations due till March 2022 in current fiscal. Current ratio stood at a healthy 1.4 times as on March 31, 2020. The company also has a cash surplus of Rs 48 crore as on September 30, 2020.

**Outlook: Stable**

MBFSL is expected to achieve healthy revenue growth over the medium term on the back of improving business risk profile, established market position, better geographical diversity, and strong customer profile and brands. Financial risk profile is likely to remain comfortable.

**Rating Sensitivity factors**

**Upward factors**

- Substantial increase in scale of operations and rise in operating profitability to 13-15%, leading to healthy cash generation of over Rs 200 crore
- Improved market share through geographical and product expansion
- Build-up of cash surplus while maintaining gearing and capital structure

**Downward factors**

- Sluggish revenue and moderation in operating profitability below 10%
- Weakening of capital structure due to substantially large, debt-funded capex or acquisition



## About the Company

Ms Rajni Bector set up MBFSL as a joint venture (JV) with Quaker Oats, the USA (now a subsidiary of PepsiCo Inc) to supply packaged ketchup to McDonald's, in addition to buns, batter, and bread. Quaker Oats withdrew from the JV in 1999. In fiscal 2014, the company underwent a business reorganisation and demerged its food supplements (sauces, spreads, and namkeen) division.

MBFSL operates in three segments: it sells biscuits under the Mrs. Bectors Cremica brand. It also sells buns and other bakery items to KFC, Burger King. It supplies bread and bakery items under its English Oven brand and English Oven brands to modern retail chains (Easy Day, Reliance Retail, Big Bazaar, More, and Spencer's) and distributors. MBFSL is the sole supplier of buns to McDonald's in India.

For the six months through September 2020, the company reported an EBITDA (earnings before interest, taxes, depreciation, and amortisation) of Rs 79.6 crore (Rs 40.6 crore for the same period previous fiscal) on net sales of Rs 438 crore (Rs 366 crore).

## Key Financial Indicators

	Units	2020	2019
Revenue	Rs cr	765	786
PAT	Rs cr	30	33
PAT margin	%	4	4.2
Adjusted debt/networth	Times	0.41	0.48
Interest coverage	Times	6.17	8.33

**Any other information:** Not applicable

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## Annexure - Details of Instrument(s)

ISIN	Name of instrument	Date of Allotment	Coupon rate (%)	Maturity date	Issue Size (Rs. crore)	Complexity level	Rating assigned with Outlook
NA	Bank Guarantee	NA	NA	NA	3.5	NA	CRISIL A1+
NA	Letter of Credit**	NA	NA	NA	10	NA	CRISIL A1+
NA	Cash Credit*	NA	NA	NA	35	NA	CRISIL AA-/Stable
NA	Overdraft Facility	NA	NA	NA	10	NA	CRISIL AA-/Stable
NA	Term Loan	NA	NA	Dec-24	5	NA	CRISIL AA-/Stable
NA	Term Loan	NA	NA	Apr-25	43.95	NA	CRISIL AA-/Stable
NA	Term Loan	NA	NA	Oct-21	16.41	NA	CRISIL AA-/Stable
NA	Term Loan	NA	NA	Oct-21	2.43	NA	CRISIL AA-/Stable
NA	Term Loan	NA	NA	Jun-23	7.31	NA	CRISIL AA-/Stable
NA	Term Loan	NA	NA	May-26	9.09	NA	CRISIL AA-/Stable
NA	Term Loan	NA	NA	Jan-25	9.52	NA	CRISIL AA-/Stable
NA	Term Loan	NA	NA	Jan-27	45	NA	CRISIL AA-/Stable
NA	Term Loan	NA	NA	Apr-25	12.99	NA	CRISIL AA-/Stable
NA	Term Loan	NA	NA	Apr-26	7.21	NA	CRISIL AA-/Stable
NA	Term Loan	NA	NA	Dec-27	27	NA	CRISIL AA-/Stable
NA	Working Capital Term Loan	NA	NA	Dec-22	6.11	NA	CRISIL AA-/Stable
NA	Short Term Bank Facility	NA	NA	NA	10.5	NA	CRISIL A1+
NA	Proposed Long Term Bank Loan Facility	NA	NA	NA	3.98	NA	CRISIL AA-/Stable
NA	Export Packing Credit	NA	NA	NA	5	NA	CRISIL AA-/Stable

\*Includes Rs 20 crore of sublimit for export credit packing credit.

\*\*Includes Rs 10 crore of sublimit for bank guarantee

## Annexure – List of entities consolidated

Sr. No	Subsidiary Companies:	Subsidiary/ Joint Venture	Extent of consolidation
1	Bakebest Foods Pvt Ltd	Subsidiary	100%



## Annexure - Rating History for last 3 Years

Instrument	Current			2021 (History)		2020		2019		2018		Start of 2018
	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund Based Facilities	LT/ST	256.5	CRISIL A1+ / CRISIL AA-/Stable		--	05-03-20	CRISIL A+/Positive / CRISIL A1	31-12-19	CRISIL A+/Positive / CRISIL A1	29-09-18	CRISIL A+/Positive / CRISIL A1	CRISIL A+/Stable / CRISIL A1
Non-Fund Based Facilities	ST	13.5	CRISIL A1+		--	05-03-20	CRISIL A1	31-12-19	CRISIL A1	29-09-18	CRISIL A1	CRISIL A1

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
Bank Guarantee	3.5	CRISIL A1+	Bank Guarantee	3.5	CRISIL A1
Cash Credit&	35	CRISIL AA-/Stable	Cash Credit&	35	CRISIL A+/Positive
Letter of Credit^	10	CRISIL A1+	Letter of Credit^	10	CRISIL A1
Overdraft Facility	10	CRISIL AA-/Stable	Overdraft Facility	10	CRISIL A+/Positive
Proposed Long Term Bank Loan Facility	3.98	CRISIL AA-/Stable	Proposed Long Term Bank Loan Facility	3.98	CRISIL A+/Positive
Short Term Bank Facility	10.5	CRISIL A1+	Short Term Bank Facility	10.5	CRISIL A1
Term Loan	185.91	CRISIL AA-/Stable	Term Loan	185.91	CRISIL A+/Positive
Working Capital Term Loan	6.11	CRISIL AA-/Stable	Working Capital Term Loan	6.11	CRISIL A+/Positive
Export Packing Credit	5	CRISIL AA-/Stable	Export Packing Credit	5	CRISIL A+/Positive
<b>Total</b>	<b>270</b>	<b>-</b>	<b>Total</b>	<b>270</b>	<b>-</b>

& - Includes Rs 20 crore of sublimit for export credit packing credit.

^ - Includes Rs 10 crore of sublimit for bank guarantee

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