Press Release

Hyfun Agrilink Private Limited (HAPL)

June 04th, 2020

Sl. No.	Instrument/Facility	Amount (Rs. Crore)	Rating Assigned
1.	Long Term Bank Facility – Working Capital Demand Loan	50.00	IVR BBB/Stable Outlook (IVR Triple B with Stable Outlook)
2.	Long Term Bank Facility – Working Capital Demand Loan	5.00	IVR BBB/Stable Outlook (IVR Triple B with Stable Outlook)
3.	Proposed Long Term Fund Based Bank Facilities	50.00	IVR BBB/Stable Outlook (IVR Triple B with Stable Outlook)
	Total	**105.00**	

Details of Facilities are in Annexure 1

Detailed Rationale

The rating derives strength from overall experience of the promoters in Agri & food processing related business, entry barriers in French fries segment backed by its established relations with contract farmers, strategically located plan and improvement in overall financial and operational profile. However, the rating strengths are partially offset by vulnerability of operations, raw materials procurement, agro-climatic risk and other regulatory risk and high working capital intensity.

Key Rating Sensitivities:

- **Upward Factor**
  - Sustained and significant improvement in the scale of operations while maintaining the debt protection metrics and the overall liquidity profile.
- **Downward Factor**
  - Any decline in sales, leading to lower than expected cash accruals in view of the significant debt repayments.

Key Rating Drivers with detailed description

Key Rating Strengths

- ***Experience of promoters in agri & food processing related business:***

Hyfun Agrilink Private Limited (HAPL) is a wholly owned subsidiary of Asandas& Sons Private Limited (ASPL), with the latter having been in the particular business since almost 1962. ASPL has an established presence in the potato trading business since its inception and lately (from the year 2016), The Group leveraged on its promoters expertise to venture into processing of potato-based products, namely French fries, potato flakes, etc. Altogether, the company benefits from the significant experience of its promoters, who have been collectively associated with the industry for almost 5 decades now.

- ***Entry barriers in French fries segment and established relations with contract farmers:***

French fries manufacturing requires a specific type of potato, which is generated from a certain seed. There are criticalities/restrictions involved in terms of acquisition of seed, time required to develop potato from the seeds, contract farming and capex for the setting up of plant and cold supply chain. HAPL has its own seed multiplication program which starts with sourcing mini-tubers from reputed tissue culture labs. Thereafter, these tubers are multiplied for three years through contract farming with the farmers in North Indian States of Punjab and Himachal Pradesh. The third generation seed potatoes are provided to the farmers in Gujarat who enter into contract farming agreement with the company at a predetermined price for commercial cultivation of potato as per The Group's processing needs. Further, as a provider of processed food, The Group requires various certifications and has to undergo stringent audits from clients.

- ***Strategically located plant:***

The Group enjoys geographical advantage by virtue of being located closer to the potato growing region, i.e. Northern Gujarat. The Group manufacturing facilities are based in Mehsana, Gujarat, i.e. area where high potato availability with quality crop, which provides easy access to quality raw materials and contract-farmed potatoes from its farmers. Also, The Group benefits in terms of the ready infrastructure and logistics, such as in-house cold storage, adequate power supply, lower transportation cost and accessibility to ports for exports.

- ***Improvement in overall operational & financial profile:***

The Group's consolidated revenues increased to Rs. 321.64 Crore in FY2020 (Provisional) from Rs. 166.48 Crore in FY2019, marking a growth of 96% year over year. Its revenue has shown an increasing trend since the last three years. The increase is on account of better sales realisation, volume growth and comfortable order book position. Its order book position stood high at Rs. 527.95 Crore as on May 2020.

The financial risk profile is moderate marked by healthy adjusted net worth, moderate gearing levels and debt protection metrics. The adjusted net worth of the company is healthy at Rs. 80.47 Crore as on March 31st, 2019. The adjusted net worth includes unsecured loans from promoters amounting to Rs. 11.56 Crore as on March 31st, 2019 and is treated as quasi equity. Overall gearing levels stood at 0.89x as on March 31st, 2019. The healthy revenue levels coupled with the high operating margins have resulted in comfortable debt protection measures. The operating margins stood at 19.87% in FY2020 (Provisional) and 17.44% in FY2019. Interest Coverage Ratio (ICR) stood moderate at 3.02x in FY2019.

Key Rating Weaknesses

- ***Vulnerability of operations, raw materials procurement, agro-climatic risk and other regulatory risk:***

The business operations and profitability remain exposed to the adequate availability of quality potato at good prices. The raw materials which consist of around 70% of the total cost are susceptible to fluctuations in production due to vagaries of nature (monsoon). Further, with the outbreak of COVID-19 and other regulatory concerns, the existing conditions can impact the company's operations for the short term.

- ***High working capital intensity:***

The main raw material for manufacturing fries (the end product) is potato. Since potato season generally ends in April, the company is required to start stocking potatoes from February to meet the requirements for the entire year, which leads to high inventory. Accordingly, the working capital requirements remain high during that particular time period.

Analytical Approach: Consolidated

Infomerics has consolidated operational and financial risk profile of Asandas & Sons Private Limited - ASPL (Parent Company) and Hyfun Agrilink Private Limited – HAPL (100% Subsidiary Company) for arriving at the rating. The consolidated approach is taken on basis of common management, similar product line and operational & financial synergies between the two companies.

Applicable Criteria

Rating Methodology for trading entities

Financial Ratios & Interpretation (Non-Financial Sector)

Liquidity: Adequate

The liquidity position remains adequate as cash accruals are expected to remain sufficient to meet the repayment obligations. Also, the group finds cushion from the financial support from the promoters.

About the Company

Incorporated in the year 1962 as a partnership firm, the company changed its constitution recently and now is known as Asandas & Sons Private Limited (ASPL). In 2016, to leverage out their long standing experience in the potato segment and with a vision to diversify and provide value added products, the company ventured into frozen potato French fries and other potato based products by setting up a 1.2 T/hr. (present capacity being 10.5 T/hr.) potato French fries plant in Mehsana, Gujarat. The company sells these niche products in the name of ‘HyFun Foods’.

Incorporated in January 2019, Hyfun Agrilink Private Limited (HAPL) is a 100% owned subsidiary of Asandas& Sons Private Limited (ASPL). The concerned entity is mainly engaged in procurement of raw materials (potato) for the parent company meanwhile supplying it to other regional and local players too.

Financials (Consolidated):

(Rs. Crore)

For the year ended/ As On*	31-03-2019 (Audited)	31-03-2020 (Provisional)
Total Operating Income	166.48	321.64
EBITDA	29.04	63.92
PAT	7.82	34.85
Total Debt	71.82	146.41
Adjusted Net-worth	80.47	153.99
EBITDA Margin (%)	17.44	19.87
PAT Margin (%)	4.70	10.83
Overall Gearing Ratio (x)	0.89	0.95

** Classification as per Infomerics' standards*

Financial (Standalone):

(Rs. Crore)

For the year ended/ As On*	31-03-2019 (Audited)	31-03-2020 (Provisional)
Total Operating Income	5.37	118.09
EBITDA	-0.10	6.21
PAT	-0.35	2.07
Total Debt	23.31	36.27
Adjusted Net-worth	9.55	25.26
EBITDA Margin (%)	-1.95	5.26
PAT Margin (%)	-6.54	1.76
Overall Gearing Ratio (x)	2.44	1.44

** Classification as per Infomerics' standards*

Status of non-cooperation with previous CRA: N.A

Any other information: N.A

Rating History for last three years:

Sl. No.	Name of Instrument/ Facilities	Current Rating (Year 2020-21)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18
1.	Long Term Bank Facility – Working Capital Demand Loan	Long Term	50.00	IVR BBB/Stable	--	--	--
2.	Long Term Bank Facility – Working Capital Demand Loan	Long Term	5.00	IVR BBB/Stable	--	--	--
3.	Proposed Long Term Fund Based Bank Facilities	Long Term	50.00	IVR BBB/Stable	--	--	--

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.

Name and Contact Details of the Rating Team:

Name: Parth Dattani
Tel: (022) 62396023
Email: pdattani@infomerics.com

Name: Amit Bhuwania
Tel: (022) 62396023
Email: abhuwania@infomerics.com

About Infomerics:

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. Company's long experience in varied spectrum of financial services is helping it to fine tune its product offerings to best suit the market.

Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Long Term Bank Facility – Working Capital Demand Loan	NA	NA	NA	50.00	IVR BBB/Stable
Long Term Bank Facility – Working Capital Demand Loan	NA	NA	Up to March 2022	5.00	IVR BBB/Stable
Proposed Long Term Fund Based Bank Facilities	NA	NA	NA	50.00	IVR BBB/Stable