Press Release

Asandas & Sons Private Limited (ASPL)
October 25, 2023

Ratings:

Instrument / Facility	Amount (Rs. Crore)	Current Ratings	Rating Action	Complexity Indicator
Long Term Facility	417.81 (Increased from 134.09)	IVR BBB+/ Stable Outlook (IVR Triple B Plus with Stable Outlook)	Reaffirmed	Simple
Short Term Facility	61.50 (Increased from 30.50)	IVR A2 (IVR A Two)	Reaffirmed	Simple
Proposed Long term Bank Facility	150.00	IVR BBB+/ Stable Outlook (IVR Triple B Plus with Stable Outlook)	Assigned	Simple
Total	**629.31**	**(Rupees Six Hundred Twenty-Nine crores and Thirty-One lakhs only)**		

Details of Facilities are in Annexure 1

Detailed Rationale:

The reaffirmation of the ratings assigned to the bank facilities of ASPL reflects continued strong financial and credit profile reflected by improved EBITDA margins and significant revenue growth. These strengths are partially mitigated by ongoing capex as well as elongated working capital cycle resulted in higher working capital utilisation. IVR will also monitor the commissioning and stabilisation of proposed new facilities of French fries and flakes.

Further, the rating continues to derive strength from its experience of promoters in agri & food processing related business, entry barriers in French fries' segment and established relations with farmers, creation of entire value chain, strategically located plant, reputed clients base, favourable growth prospects for processed food industry and improvement in overall operational & financial profile as expected. However, the rating strengths are partially offset by raw materials procurement, agro-climatic and other regulatory risk, high working capital intensity and exposure to foreign exchange fluctuations.

Key Rating Sensitivities: On a consolidated basis

Upward Factors

- Stabilization of new facilities along with achievement of projected revenue and profitability.
- Reduction in working capital cycle resulting in improvement in overall liquidity profile.
- TOL/ATNW below 1.5x on a sustained basis.

Downward Factors

- Any unplanned debt led capex and/or any significant deterioration in revenue and profitability and/or inability to ramp up the capacity utilization of new capacities resulting in deterioration in overall credit profile.
- Any further deterioration in the working capital cycle resulting in deterioration in liquidity position.

Key Rating Drivers with detailed description

Key Rating Strengths:

Experience of promoters in Agri & food processing related business

The Group leveraged on its promoter family's six decade experience in potato segment to venture into processing of potato-based products, namely Frozen French fries and allied frozen potato snacks, potato flakes, etc. Also, backed by the extensive and significant experience, the promoters have a strong understanding of the local dynamics.

Entry barriers in French fries Industry and established relations with contract farmers

French fries manufacturing requires a special varieties of potato which are essentially protected varieties and a five year cycle is required to have the seed pipeline of such varieties in place. The high-quality seed potato from such controlled pipeline is made available by the company to its contract growers for commercial crop (used for processing) under the contract farming model. There are criticalities involved in terms of organizing the seed pipeline, procurement through contract farming and high capex for the setting up of processing plant and establishing the requisite cold chain. One of the group companies Hyfun Agrilink Private Limited (HAPL) has its own seed multiplication program which starts with sourcing mini-tubers from reputed tissue culture labs. After three consecutive seasons (years) of seed multiplication, the third generation seed potatoes are provided to the farmers in Gujarat under contract farming agreement with the Group at a predetermined price for commercial cultivation of potato as per the Group's processing needs.

Catering to entire value chain:

The Company's unique "Seed to Shelf" business model is fully integrated enabling the entire value chain, wherein they carry out seed multiplication program and thus provide best quality seeds to the farmers. The procurement of raw potatoes for processing is done majorly through contract farming and the quantities are procured during the harvest season itself and the group undertakes storage in advanced high technology cold storages until processed. The potatoes are processed into various frozen snacks like French fries, hashbrowns, Aloo tikki, Burger patties etc., and further supplied through cold chain network to the distributor point/ retailer shelf.

Strategically located plant:

The Group manufacturing facilities are based in Mehsana, Gujarat, which is centrally located in the potato growing belt of North Gujarat i.e. area which is conducive for cultivation of processing varieties of potato. This enables the group to procure potatoes with desired parameters within short radius of 100-120 km area from its contract farmers. Also, the plant is strategically located in terms of availability of necessary infrastructure and logistics, cold storage facilities, uninterrupted power supply, lower transportation cost (being within the potato growing belt) and proximity to ports for exports.

Improvement in overall operational & financial profile:

During FY23, ASPL consolidated revenue grew by 85% on a y-o-y basis to Rs. 1,120 crores driven by higher capacity utilization, higher volumes and increase in realizations. During FY23, ASPL did some debottlenecking thereby increasing capacity to 72,000MTPA in FY23 from 66,000MTPA in FY22. Capacity utilization also remains close to 96%. Average realization of French fried has improved to Rs.100.47 per kg in FY23 as compared to Rs.70 per kg in FY22, while for other specialty products it has increased to Rs.126 per kg in FY23 as compared to Rs.93 per kg in FY22. Revenue is expected to increase further in FY24 and FY25 with commissioning of additional capacities during FY24 and expected further increase in realizations.

EBITDA margins as well as PAT margins improved significantly in FY23 to 18.32% and 11.34% respectively (FY22:11% and 3% respectively) driven by lower palm oil prices along with higher realizations. ASPL's ability to sustain its margins at the FY23 levels will be key monitorable as improvement is driven by declined in palm oil prices and realizations. Any increase in palm oil prices will have an impact on the profitability of ASPL.

Overall improvement in credit profile:

Credit profile indicated by overall gearing improved to 1.56x in FY23 (FY22:1.71x); while TOL/adjusted TNW has improved to 1.71x in FY23 (FY22:2.06x) with improvement in profitability. Gearing as well as TOL/TNW are expected to improve further from FY24 onwards despite debt led capex in FY23 and FY24 due to higher profitability.

Interest coverage ratio as well as DSCR also remained comfortable and at 9.62x and 3.15x respectively at the end of FY23 (FY22:3.15x and 1.35x respectively). Interest coverage looks higher as only additional debt on account of capex came in the H2FY23. IVR notes that ISCR and DSCR will remain comfortable from FY24-FY26 with expected higher profitability.

Reputed customer base

The group caters to reputed customers which includes global QSR chains such as Burger King, KFC, etc. and also to well-known Indian brands like Mother Dairy, ITC, Godrej, Wal-Mart India etc. The Group has a strong 300+ distributor network pan India to cater to HoReCa segment. On the exports front the group have varied marquee customers like Siam Makro, Jagota Brothers, , KCG, MyDin, Lotteria, etc. to name a few. Around 70-75% of sales are through exports to countries such as Thailand, Philippines, Dubai, Saudi Arabia, Malaysia, Singapore, Nepal etc. The products are present in these markets with retail stores such as Tesco Thailand, Makro Thailand & Mydin Malaysia. Year-on-year the company is has been expanding its footprints to new geographies.

Favorable growth prospects for processed food industry

Increasing working population, bourgeoning urban and young population along with changing lifestyles of people and the paucity of time in a faced-paced world are expected to be driving factors for growth of the processed food industry.

Key Rating Weaknesses:

Raw materials procurement, agro-climatic 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 .

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.

HAPL (ASPL's subsidiary company) has started selling most of its potato inventory procured during harvesting season (Jan to Mar every year) by March itself to ASPL. Hence, accordingly during Jan 2023 to Mar 2023, HAPL sold around 185,000 MT to ASPL. Earlier than this, HAPL was selling this inventory on monthly basis as per the monthly requirement of ASPL. This change in model was done, since ASPL got sanction of additional working capital for Potato inventory in its books. Additionally, this will help group to increase profitability as going forward ASPL will bear cold storage, transportation cost from cold storage to factory, CIPC cost, bag Cost and take GST input credit benefits on some of these services which were otherwise lost when HAPL was keeping that inventory and selling on monthly basis.

Exposure to foreign exchange fluctuations:

Since a bulk of the sales is made to foreign countries, the firm is exposed to unexpected foreign exchange price movements, as the export realizations are generally in US$ terms. However, the company already has a hedging policy in hand, which it implements on a need basis. At any point of time around 70% of the exposure remains hedged, which mitigates the currency risk to major extent.

Analytical Approach: Consolidated Approach

Infomerics has consolidated operational and financial risk profile of Asandas & Sons Private Limited (ASPL) - Parent Company and Hyfun Agrilink Private Limited (HAPL), Hyfun Foods Private Limited (HFPL), Hyfarm Foods Private Limited (HFPL) and Hyfun Food Supply Chain Private Limited (HFSCPL) - 100% Subsidiary Company for arriving at the rating. All the companies are collectively known as Hyfun Foods Group.

Applicable Criteria:

[Criteria of Rating Outlook](#)

[Rating Methodology for Manufacturing Companies](#)

[Financial Ratios & Interpretation (Non-Financial Sector)](#)

[Rating criteria for Consolidation of Companies](#)

Liquidity – Adequate

The liquidity of the company remains adequate marked by the moderate cash accruals as against the long-term debt repayment obligations. Its average maximum fund based working capital utilization for the 12 months ended September 2023 stood around 73.09%. With the capex and repayment obligations likely to be moderate as against the envisaged cash accruals, the liquidity is expected to remain strong in the medium term. The Current ratio stands at 1.40x for FY23.

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 plant in Mehsana, Gujarat. The Company has an installed of 72,000 MTPA.

The company sells these niche products under its brand name of 'HyFun'.

Financials: Consolidated

(Rs. crore)

For the year ended/ As On	31-03-2022	31-03-2023
	(Audited)	(Audited)
Total Operating Income	603.50	1120.38
EBITDA	66.40	205.29
PAT	19.85	127.22
Total Debt	279.47	451.88
Adjusted Tangible Net-worth	211.65	349.80
Ratios		
EBITDA Margin (%)	11.00	18.32
PAT Margin (%)	3.28	11.34
Overall Gearing Ratio (x)	1.71	1.56

**Classification as per Infomerics Standards*

Financials Standalone

(Rs. crore)

For the year ended/ As On	31-03-2022	31-03-2023
	(Audited)	(Audited)
Total Operating Income	505.06	1011.55
EBITDA	50.32	186.02
PAT	16.64	119.81
Total Debt	171.20	392.70
Adjusted Tangible Net-worth	183.95	256.47
Ratios		
EBITDA Margin (%)	9.96	18.39
PAT Margin (%)	3.29	11.83
Overall Gearing Ratio (x)	1.04	1.45

**Classification as per Infomerics Standards*

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years:

Sr. No	Name of Instrument/ Facilities	Current Ratings (Year 2023-24)			Rating History for the past 3 years		
		Type	Amount (Rs. crore)	Rating	Date(s) & Rating assigned in 2022-23 (Dec 2, 2022)	Date(s) & Rating assigned in 2021-22 (Sept 15, 2021)	Date(s) & Rating assigned in 2020-21 (June 16, 2020)
1.	Long Term Fund Based Facility – Term Loans	Long Term	169.64	IVR BBB+/ Stable	IVR BBB+/ Stable	IVR BBB/ Positive	IVR BBB/ Stable
2.	Long Term Fund Based Facility – Cash Credit	Long Term	220.00	IVR BBB+/ Stable	IVR BBB+/ Stable	IVR BBB/ Positive	IVR BBB/ Stable
3.	Long Term Fund Based Facility- ECB	Long Term	28.17	IVR BBB+/ Stable	IVR BBB+/ Stable	IVR BBB/ Positive	IVR BBB/ Stable
5.	Short Term Non Fund Based Facility- CEL	Short Term	13.00	IVR A2	--	--	--
4.	Short Term Non-Fund Based	Short Term	8.50	IVR A2	IVR A2	IVR A3+	IVR A3+

	Facility- Bank Guarantee						
5.	Short Term Non-Fund Based Facility- PCFC	Short Term	40.00	IVR A2	IVR A2	IVR A3+	IVR A3+
6.	Proposed Long Term Fund Based Facility	Long Term	150.00	IVR BBB+/ Stable	--	--	--

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About Infomerics:

Infomerics Valuation and Rating Private Ltd (Infomerics) was founded in the year 1986 by a team of highly experienced finance professionals for research and risk evaluation. Infomerics commenced its activities as External Credit Assessment Institution after obtaining registration from Securities Exchange Board of India (SEBI) and accreditation from Reserve Bank of India (RBI).

Adhering to best international practices and maintaining high degree of ethics, the team of analysts at Infomerics deliver quality credit ratings. Infomerics evaluates wide range of debt instruments which helps corporates access to financial markets and provides investors credit ratings backed by in-depth research. The transparent, robust, and credible ratings have gained the confidence of investors and the banks.

Infomerics has a pan India presence with Head Office in Delhi and Corporate Office at Mumbai, with branches in major cities and representatives in several locations.

Infomerics also has international presence with credit rating operations in Nepal through its JV subsidiary.

For more information visit www.infomerics.com.

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Annexure 1: Details of Facilities:

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. crore)	Rating Assigned/ Outlook
Term Loan	--	--	--	169.64	IVR BBB+/ Stable
Cash Credit	--	--	--	220.00	IVR BBB+/ Stable
External commercial Borrowings	--	--	--	28.17	IVR BBB+/ Stable
Currency Exposure Limit	--	--	--	13.00	IVR A2
Bank Guarantee	--	--	--	8.50	IVR A2
PCFC	--	--	--	40.00	IVR A2
Proposed CC	--	--	--	150.00	IVR BBB+/ Stable

Annexure 2: List of companies considered for consolidated analysis:

Name of the Company	Extent of Consolidation
Asandas and Sons Private Limited	Full
Hyfun Agrilink Private Limited	Full
Hyfun Foods Private Limited	Full
Hyfarm Foods Private Limited	Full
Hyfun Food Supply Chain Private Limited	Full

Annexure 3: Facility wise lender details:

https://www.infomerics.com/admin/prfiles/len-ASPL-oct2023.pdf

Annexure 4: Detailed explanation of covenants of the rated instrument/facilities: Not Applicable

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 https://www.infomerics.com/.