Press Release

Asandas & Sons Private Limited (ASPL)

December 2, 2022

Ratings:

Instrument / Facility	Amount (Rs. Crore)	Current Ratings	Rating Action	Complexity Indicator
Long Term Facility – Fund Based – Term Loan	41.41 (Increased from 34.19)	IVR BBB+/ Stable Outlook (IVR Triple B Plus with Stable Outlook)	Rating revised; Outlook changed to Stable	Simple
Long Term Facility – Fund Based – Cash Credit	66.25 (Increased from 40.00)	IVR BBB+/ Stable Outlook (IVR Triple B Plus with Stable Outlook)	Rating revised; Outlook changed to Stable	Simple
Long term Bank Facility – External Commercial Borrowings in Foreign Currency Denomination	26.43 (Reduced from 39.89)	IVR BBB+/ Stable Outlook (IVR Triple B Plus with Stable Outlook)	Rating revised; Outlook changed to Stable	Simple
Short term non-Fund based Facility – Bank Guarantee	10.50 (Increased from 8.50)	IVR A2 (IVR A Two)	Rating Revised	Simple
Short term non-Fund based Facility – PCFC	20.00	IVR A2 (IVR A Two)	Assigned	Simple
Proposed Long term Fund based Bank Facility - Cash Credit	0.00 (Previously rated 8.39)	--	Withdrawn*	Simple
Total	**164.59**	**(Rupees One Hundred Sixty-four crores and fifty-nine lakhs only)**		

*****_Withdrawn as the company has not proceeded with the facility as envisaged_

Details of Facilities are in Annexure 1

Detailed Rationale:

The revision of the ratings assigned to the bank facilities of ASPL reflects overall improvement in financial & operational performance of the company in H1FY23 which is expected to sustain in H2FY23 and beyond. 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:

Upward Factors

On a consolidated basis

- Sustained and significant improvement in the scale of operations while improving profitability & debt protection metrics.
- TOL/ATNW below 1.5x on a sustained basis.

Downward Factors

- Any decline in scale of operations and/or profitability, leading significant deterioration of debt protection metrics on a consolidated basis.

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 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

The Group's consolidated revenues increased to INR 596.58 Crore in FY2022 from INR 488.60 Crore in FY2021. The EBITDA margin deteriorated substantially in FY22 to 11.31% in FY22 from 16.46% in FY21 due to impact of Covid-19 resulting in increase of raw material cost along with other overheads. The capital structure of the group remained stable with overall gearing of 1.52x in FY22 and 1.51x in FY21. The long debt-equity stood at 2.12x in FY22 as against 1.83x in FY21. The financial risk profile of the group is healthy marked by healthy net worth, debt protection metrics and debt coverage indicators. The adjusted net worth stood moderate at INR 201.45 Crore as on 31st March 2022 (31st March 2021: INR 179.24 Crore). Interest coverage ratio stood at 3.37x in FY22 (FY 21: 5.04x). Total debt increased to INR 279.47 Crore in FY22 (INR 240.79 Crore). Total Debt / GCA ratio was at 3.74 times in FY2022. Total debt/GCA, interest coverage & other debt protection metrics are expected to remain moderate moving forward.

During H1FY23, the company has shown a significant increase in top line & EBITDA margin Revenue improved from INR 206.93 crores in H1FY22 to INR 469.37 crores in H1FY23 and EBITDA margins improved to 18.99% in H1FY23.

The plant is running at full capacity, further any substantial increase in the revenue will need capacity enhancement. The management indicated that the capex plan in under consideration.

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.

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 an hedging policy in hand, which its implement 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 comfortable cash accruals as against the long-term debt repayment obligations. However, Its average maximum fund based working capital utilization for the 12 months ended October 2022 stood high at around 95%. Its operating cycle remains elevated at 113 days in FY22 from 96 days in FY21 due to the business model. The Current ratio stands at 1.35x for FY22. The cash and cash equivalent stood at INR 0.68 crores in FY22.

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 66,000 MTPA.

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

Financials Consolidated

(Rs. crore)

For the year ended/ As On	31-03-2021	31-03-2022
	(Audited)	(Audited)
Total Operating Income	488.60	596.58
EBITDA	80.43	67.46
PAT	40.88	19.85
Total Debt	201.77	231.15
Adjusted Tangible Net-worth	179.48	211.22
Ratios		
EBITDA Margin (%)	16.46	11.31
PAT Margin (%)	8.37	3.33
Overall Gearing Ratio (x)	1.27	1.21

**Classification as per Infomerics Standards*

Financials Standalone

(Rs. crore)

For the year ended/ As On	31-03-2021	31-03-2022
	(Audited)	(Audited)
Total Operating Income	321.98	505.06
EBITDA	64.27	50.32
PAT	35.92	16.64
Total Debt	149.58	171.20
Adjusted Tangible Net-worth	164.74	183.95
Ratios		
EBITDA Margin (%)	19.96	9.96
PAT Margin (%)	11.14	3.29
Overall Gearing Ratio (x)	1.03	1.04

**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 2022-23)			Rating History for the past 3 years		
		Type	Amount (Rs. crore)	Rating	Date(s) & Rating assigned in 2021-22 (Sept 15, 2021)	Date(s) & Rating assigned in 2020-21 (June 16, 2020)	Date(s) & Rating assigned in 2019-20 (Jan 2, 2020)
1.	Long Term Fund Based Facility – Term Loans	Long Term	41.41	IVR BBB+ / Stable	IVR BBB/ Positive	IVR BBB/ Stable	IVR BBB-/ Stable
2.	Long Term Fund Based Facility – Cash Credit	Long Term	66.25	IVR BBB+ / Stable	IVR BBB/ Positive	IVR BBB/ Stable	IVR BBB-/ Stable
3.	Long Term Fund Based Facility- ECB	Long Term	26.43	IVR BBB+ / Stable	IVR BBB/ Positive	IVR BBB/ Stable	IVR BBB-/ Stable
4.	Short Term Non-Fund Based Facility- Bank Guarantee	Short Term	10.50	IVR A2	IVR A3+	IVR A3+	IVR A3
5.	Short Term Non Fund Based Facility- PCFC	Short Term	20.00	IVR A2	IVR A3+	IVR A3+	IVR A3
6.	Proposed Long Term Fund Based Facility	Long Term	0.00 (Previously rated 8.39)	Withdrawn*	IVR BBB/ Positive	IVR BBB/ Stable	--

******Withdrawn as the company has not proceeded with the facility as envisaged*

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About Infomerics:

Infomerics was founded in the year 1986 by a team of highly experienced and knowledgeable finance professionals. Subsequently, after obtaining Securities Exchange Board of India registration and RBI accreditation and the activities of the company are extended to External Credit Assessment Institution (ECAI).

Adhering to best International Practices and maintaining high degree of ethics, the team of knowledgeable analytical professionals deliver credible evaluation of rating.

Infomerics evaluates wide range of debt instruments which helps corporates open horizons to raise capital and provides investors enlightened investment opportunities. The transparent, robust and credible rating has gained the confidence of Investors and Banks.

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

For more information visit www.infomerics.com

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	--	--	Up to 2028	41.41	IVR BBB+/ Stable
Cash Credit	--	--	--	86.25	IVR BBB+/ Stable
External commercial Borrowings	--	--	--	26.43	IVR BBB+/ Stable
Bank Guarantee	--	--	--	10.50	IVR A2

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-dec22.pdf

Name of Lender/Banker	Facilities	Nature	Rated Amount (Rs. crore)
State Bank of India	Term Loan	Long Term	19.19
Union Bank of India	Term Loan	Long Term	7.21
RABO Bank	External Commercial Borrowings	Long Term	26.43
Kotak Mahindra Bank	Term Loan	Long Term	15.01
State Bank of India	Cash Credit	Long Term	20.00
Union Bank of India	Cash Credit	Long Term	31.25
Citi Bank	Cash Credit	Long Term	20.00
Standard Chartered Bank	Cash Credit	Long Term	15.00
State Bank of India	Bank Guarantee	Short Term	5.00
Union Bank of India	Bank Guarantee	Short Term	5.50

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/.