



Press Release

Fair Food Overseas Private Limited

August 20, 2021

Ratings

Instrument / Facility	Amount (Rs. crore)	Ratings	Rating Action
Long Term Bank Facilities	51.534	IVR BBB- / Stable (IVR Triple B Minus; Outlook: Stable)	Assigned
Total	51.534 (Fifty One Crore Fifty Three Lakhs and Forty Thousand only)		

Details of Facilities are in Annexure 1

Detailed Rationale

The ratings assigned to the bank facilities of Fair Food Overseas Private Limited (FFOPL) factors in the extensive experience of the promoters in the agro products business and the location advantage with its milling unit located in the rice growing Katni, Madhya Pradesh. Further, the ratings also factor in the moderate debt metrics and working capital intensity as also the favorable demand for rice and its products. However, the ratings remained constrained by exposure to the inherent thin profitability in the paddy industry which also remains vulnerable to agro-climatic risk and changes in government regulations. The paddy industry further remains marked by several unorganised players which, further with commoditised nature of the product keeps the margins at low levels.

Key Rating Sensitivities:

Upward Factors

- Significant improvement in profitability metrics and sustenance of the same
- Reduction in working capital level borrowings
- Continuous improvement in the capital structure



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Downward Factors

- Dip in operating income and/or profitability impacting the debt coverage indicators and liquidity
- Further elongation of the operating cycle leading to weakening in liquidity position
- Any additional debt burden than expected pressurising the capital structure and the coverage indicators

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

- **Extensive experience of the promoters in agro products business**

The promoter Mehani family has a considerable experience in the agro products business. While Mr. Daulatram Mehani and Mr. Shanker Mehani have more than four decades of experience in this business, Mr. Kamal Mehani and Mr. Kishore Mehani are having more than two decades of experience in rice milling industry. On the back of this long-standing experience of the promoters, the company has developed established and healthy relationships with its customers and suppliers, which enables the company to receive repeat orders.

- **Location advantage on being present in the rice growing Central India**

FFOPL is engaged in milling and processing of rice. The milling unit is favorably located in the rice growing Central India Region of Katni, Madhya Pradesh implying proximity to paddy growers. The presence in these regions thus gives a competitive advantage in terms of easy availability of paddy, lower freight, and favourable pricing terms. Further, most of the customers also remain in the vicinity of the processing units. The company revenues have remained around Rs. 310 crore in the past few fiscals.

- **Moderate capital structure, adequate net worth and satisfactory debt metrics**

The net worth has remained adequate in past fiscals. Coupled with satisfactory debt levels has led to gearing at 1.41 times as on March 31, 2021 as compared to 1.42 times as on



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March 31,2020. The TOL/TNW also has remained satisfactory at 1.60 times in March 31,2021 as compared to 1.56 times as on March 31,2020. The debt protection metrics of the company are moderately satisfactory with Interest coverage ratio at 2.11 times in FY2020 while it stood at 2.27 times in FY2021. TD/GCA stood at 10.69 times in FY2021 and 10.08 times in FY2020.

- **Working capital intensive nature of operations**

The operations remain working capital intensive as reflected by operating cycle of 68 days driven mainly by year end inventory with limited credit period from suppliers as also to customers. On an average the group extends a credit period of 20 days to its customers while it avails a credit period of 30 days from its suppliers. The paddy purchases are mostly on cash basis.

- **Favorable demand for rice and rice products**

Rice being a staple diet mainly in most part of world, chiefly the eastern hemisphere of the globe, its demand prospects remain favorable. India accounts for second largest rice producer and consumer in the world. Globally, given the spread of Indian diaspora also supports the demand for paddy and its products.

Key Rating Weaknesses

- **Thin Profitability Margins due to limited value addition**

The company operating margins remain thin given the limited value addition which also has subsequently impacted the net margins. During FY20, Fair Food Overseas Pvt. Ltd. reported an operating margin of 3.31% and PAT margin of 1.01% in line with the past fiscals. Given the limited accrual generation, the company has to depend on the working capital borrowings to meet the working capital gap.



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- **Vulnerability to agroclimatic risks, regulatory changes and intense competition in the rice milling industry**

Paddy being an agricultural commodity, its production remains susceptible to agroclimatic risks. Thus, any climatic variations impacting supply is likely to have a bearing on its pricing. Government intervention through changes in minimum support price may also exhibit an impact on the paddy price movement, ability to pass on the same to the customers remains crucial. Rice milling being a fragmented industry remains marked by presence of many organised and unorganised players, along with the commoditised nature of the products keeps the margins under pressure.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non- Financial Sector)

Liquidity – Adequate

The liquidity position of the company is expected to remain adequate as the company is anticipated to generate steady cash accrual in the range of Rs. 6.69 crore to Rs. 8.14 crore in the period FY2022-24 against its scheduled repayment obligation in the range of ~Rs. 2.57 crore during the aforesaid period. While the bank limits remained utilized to the extent of ~98% during the past 12 months ended May 2021, the free cash balance remained at Rs. 0.85 crore as on March 31,2021, the promoters in the past have supported the liquidity requirements through unsecured loans.

About the Company

Fair Food Overseas Pvt. Ltd. (FFOPL) based out of Katni, Madhya Pradesh was incorporated in the year 1993 by late Mr. Danvendra Mehani and Mr. Daulatram Mehani. FFOPL is engaged in rice milling and processing. The company is an ISO 9001:22000 certified, HACCP accredited and having license for SFDA (Saudi Food and Drug Authority). The company is



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having eight production lines which have a total capacity of 36 MT per hour (28MT for Paddy to rice and 8 MT for Rice to Rice). In addition, the company has a 20,000 MT warehouse facility which is used for storing raw material.

Financials:

(Rs. Crore)

For the year ended*/As on	31-03-2020	31-03-2021
	Audited	Provisional
Total Operating Income	304.92	312.83
EBITDA	10.10	9.86
PAT	3.07	3.11
Total Debt	51.05	55.16
Tangible Net Worth	35.96	39.06
EBITDA Margin (%)	3.31	3.15
PAT Margin (%)	1.01	0.99
Overall Gearing Ratio (x)	1.42	1.41

*Classification as per Infomerics' standards

Status of non-cooperation with previous CRA: NIL

Any other information: Nil

Rating History for last three years:

Sr. No.	Name of Facilities	Current Ratings (Year 2021-22)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2020-21	Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018-19
1.	Cash Credit	Long Term	35.00	IVR BBB-/Stable	--	--	--
2.	Term Loan		16.53		--	--	--
3.	Bank Guarantee		0.004		--	--	--

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.



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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. It is gradually gaining prominence in domestic rating and/or grading space. Infomerics is striving for positioning itself as the most trusted & credible rating agency in the country and is gradually widening its product portfolio. Company's long experience in varied spectrum of financial services is helping it to fine-tune its product offerings to best suit the market.

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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
Cash Credit	-	-	-	35.00	IVR BBB- / Stable
Term Loan	-	-	Mar 2022	16.53	
Bank Guarantee	-	-	-	0.004	

Annexure 2: List of companies considered for consolidated analysis: Not Applicable

Annexure 3: Facility wise lender details

<https://www.infomerics.com/admin/prfiles/fairfood-overseas-lenders-20aug21.pdf>

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

Annexure 5: Complexity level of the rated Instruments/Facilities

Sr No.	Instrument	Complexity Indicator
1	Cash Credit	Simple
2	Term Loan	Simple
3	Bank Guarantee	Simple

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.