Press Release

AFP Manufacturing Co. Private Limited
July 24, 2024

Ratings

Facility	Amount (Rs. crore)	Current Ratings	Previous Ratings	Rating Action	Complexity Indicator
Long-term Bank Facilities	58.00 (including proposed limit of 0.60)	IVR BBB-/ Stable (IVR Triple B Minus with Stable Outlook)	-	Assigned	Simple
Long-term/ Short-term Bank Facilities	5.00	IVR BBB-/ Stable / IVR A3 (IVR Triple B Minus with Stable Outlook and IVR A Three)	-	Assigned	Simple
Short-term Bank Facilities	9.00	IVR A3 (IVR A Three)	-	Assigned	Simple
Total	**72.00 (Rs. Seventy-two crore only)**				

Details of Facilities/Instruments are in Annexure 1. Facility wise lender details are at Annexure 2. Detailed explanation of covenants is at Annexure 3.

Detailed Rationale

The ratings assigned to the bank facilities of AFP Manufacturing Co. Private Limited (AMCPL) derives comfort from its experienced promoters with long track record, association with reputed brand, continuous increase in scale of operations and efficient working capital management. These rating strengths are partially offset by fortune linked with performance of principal and renewal policy, high degree of competition and moderate financial risk profile.

Key Rating Sensitivities:

Upward Factors

- Sustained revenue growth coupled with improvement in profit margin on a sustained basis
- Growth in cash accrual and prudent working capital management
- Improvement in leverage ratios

Downward Factors

- Any decline in revenue and profit margin on a sustained basis
- Moderation in the capital structure with deterioration in overall gearing ratio
- Deterioration in debt protection metrics and Total debt/GCA

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

- **Experienced promoters with long track record**

AMCPL started operation from 1982 and having over four decades of long and proven operational track record. Similarly, the promoters have long-standing experience in processed food business. Currently, Mr. Anil Kumar Aggarwal, Managing Director, looks after day-to-day affairs of the company along with other director, Mr. Puneet Aggarwal along with a team of experienced personnel. Mr. Anil Kumar Aggarwal has over two decades of experience in this industry.

- **Association with reputed brand**

Since 2013, the company is associated with global beverage giant PepsiCo, where initially it was in contractual manufacturing and packaging of PepsiCo's namkeen brand 'Lehar' which later on discontinued and subsequently, since 2016, the company has inked an agreement for contractual manufacturing and packaging of 'Kurkure', a leading namkeen brand under PepsiCo. Being one of the market leaders in its own segment and a reputed business organization worldwide, downside business and financial risk remains minimal with the long standing association with PepsiCo.

- **Continuous increase in scale of operations**

TOI has increased at a CAGR of ~15% during last three financial years ending in FY24 provisional (refers to period April 1st, 2023, to Mar 31st, 2024), with Y-o-Y marginal increase of ~1% over FY23 (refers to period April 1st, 2022, to Mar 31st, 2023) and ended at Rs.245.58 crore in FY24 (prov.) on the back of larger requisition from clientele PepsiCo, though average realisation was lower. This apart, a portion turnover has also come from trading of rice and corn during FY24(prov.) which further helps to increase the scale of operation during FY24(prov.). EBITDA margin of the company improved to 8.67% in FY24(prov.) as compared to 7.22% in the previous year FY23 on the back of various cost cutting measures opted by the company like reducing and replacing high paid marketing team, distributing nearby states to lower fuel costs etc.

- **Efficient working capital management**

Though the operation of the company is working capital intensive, the company has been managing the same efficiently over the years, marked by 94 days gross assets days (GCA days) during FY24(prov.) and considering low credit period availed by the company, operating cycle remained around 69 days during FY24(prov.). Though the same has increased in FY24 with the increase in inventory period, as the company has stocked agro based seasonal raw materials for higher quantity production in the coming quarters. However, average utilisation of working capital borrowing remained on higher side at around 81% during last 12 months ending in March 31, 2024(prov.).

Key Rating Weaknesses

- **Fortune linked with performance of principal and renewal policy**

AMCPL largely being a contractual manufacturer under PepsiCo, is vulnerable to the risk of change in policy by the principal with regards to the job work and periodical renewal. Accordingly, the financial risk profile of the company has a high degree of correlation with the performance of PepsiCo's snacks products like Kurkure in the market with the change in taste and preference of the buyers in the highly competitive market.

- **High degree of competition**

The company is exposed to the risk of high degree of competition due to low entry barrier. A considerable number of new manufacturing and processing facilities have entered the FMCG industry, specifically in the packaged food sector, affecting the market share of the current players. Growing logistics costs are the major barrier preventing the existing players from expanding geographically because it is not practical to pass on the increases to lower-priced products.

- **Moderate financial risk profile**

The financial risk profile of the company remained moderate over the years marked by low net profit, moderate capital structure and moderate debt coverage indicators. Over the last three financial years ending in FY24(prov.), though operating margin has been improving and was satisfactory, PAT margin (hovering around 1.02% in FY24(Prov.) remain low due to increase in capital charges where depreciation has increased with the increase in gross block after past capex in FY23 and increase in interest expense due to high debt funded said capex program.

Considering subordinated unsecured loan of Rs.9.80 crore as quasi equity, overall gearing ratio was at 1.75x as on March 31, 2024 (prov.). The interest coverage ratio was satisfactory at 2.58x, where total debt to NCA was at 6.89x in FY24(prov.). TOL/TNW was moderate at 2.16x as on March 31, 2024(prov.). Infomerics expects that, going forward, with the stability in new production line and reduction in debt level coupled with introduction of new brand under owe product line, financial risk profile will improve in the years to come.

Analytical Approach: Standalone

Applicable Criteria:

- Rating Methodology for Manufacturing Companies.
- Financial Ratios & Interpretation (Non-Financial Sector).
- Criteria for assigning Rating outlook.
- Policy on Default Recognition
- Complexity Level of Rated Instruments/Facilities

Liquidity – Adequate

AMPCL has earned a gross cash accrual of Rs. 10.50 crore in FY23 and Rs. 12.37 in FY24(Prov.). Further the company is expected to earn a gross cash accrual in the range of ~Rs. 14 to 19 crore as against its debt repayment obligations around ~Rs. 8 to 9 crore per year during FY25-27. Accordingly, the liquidity position of the company is expected to remain adequate in the near to medium term. Further, average cash credit utilisation of the company remained high at ~82% during the past 12 months ended March 2024 indicating a low liquidity cushion.

About the Company

AFP Manufacturing Co. Private Limited (AMCPL) was established as a partnership firm, namely, Aggarwal Food Products (AFP), in the year 1982 by one Agarwal family of Delhi, to initiate a food processing unit for manufacturing ready-to-eat items like namkeen, potato chips, bhujia etc. Later on, in the year 1999, the company incorporated into a Private Limited company and rechristened in the current name. The company markets its products under the brand name of 'Munchhonn' and sells by its own marketing network. Subsequently, since 2013 the company tied up with global beverage giant PepsiCo India for contract manufacturing of its snacks item 'Lehar' and later, since 2016, it has started contract manufacturing of 'Kurkure' and shifted its production base at Hajipur in Bihar with total installed capacity of 34,400 MTPA at present. During current financial year the company has introduced a new own brand, namely 'Esa', to market premium quality snacks items. The company is headquartered at Vikaspuri, Delhi, & having pan-India presence. Currently, Mr. Anil Kumar Aggarwal, Managing Director, looks after day-to-day affairs of the company along with other director, Mr. Puneet Aggarwal, and a team of experienced personnel.

Financials (Standalone):

(Rs. crore)

For the year ended/ As on*	31-03-2023	31-03-2024
	Audited	Provisional
Total Operating Income	242.78	245.58
EBITDA	17.52	21.28
PAT	2.41	2.51
Total Debt	77.22	85.29
Adjusted Tangible Net Worth	46.35	48.86
EBITDA Margin (%)	7.22	8.67
PAT Margin (%)	0.99	1.02
Overall Gearing Ratio (x)	1.67	1.75
Interest Coverage (x)	2.57	2.58

* *Classification as per Infomerics' standards.*

Status of non-cooperation with previous CRA: India Ratings vide its press release dated March 14, 2024 has continued the rating under Issuer Not Cooperating category due to non-submission of information by the company.

Any other information: Nil

Rating History for last three years:

Sr. No.	Name of Security/Facilities	Current Ratings (Year 2024-25)			Rating History for the past 3 years		
		Type (Long Term/Short Term)	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2023-24	Date(s) & Rating(s) assigned in 2022-23	Date(s) & Rating(s) assigned in in 2021-22
1.	Term Loan	Long Term	20.87	IVR BBB-/ Stable	-	-	-
2.	GECL	Long Term	2.03	IVR BBB-/ Stable	-	-	-

Sr. No.	Name of Security/Facilities	Current Ratings (Year 2024-25)			Rating History for the past 3 years		
		Type (Long Term/Short Term)	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2023-24	Date(s) & Rating(s) assigned in 2022-23	Date(s) & Rating(s) assigned in in 2021-22
3.	Cash Credit (incl. proposed limit 0.60)	Long Term	35.10	IVR BBB-/ Stable	-	-	-
4.	Cash Credit	Long Term/ Short Term	5.00*	IVR BBB-/ Stable/ A3	-	-	-
5.	Working Capital/ Multi-line Facilities#	Short Term	9.00	IVR A3	-	-	-

**sublimit of Working Capital/Multi-line Facilities*

 # includes sublimit of WCDL/PIF/SIF

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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).

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Annexure 1: Instrument/Facility Details:

Name of Facility/ /Security	ISIN	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Term Loan	-	-	-	June, 2028	20.87	IVR BBB-/ Stable
GECL	-	-	-	Oct, 2025	0.47	IVR BBB-/ Stable
GECL-1.0 Ext	-	-	-	Oct, 2026	1.56	IVR BBB-/ Stable
Cash Credit	-	-	-	-	34.50	IVR BBB-/ Stable
Proposed Cash Credit	-	-	-	-	0.60	IVR BBB-/ Stable
Cash Credit	-	-	-	-	5.00*	IVR BBB-/ Stable/ A3
Working Capital/Multi-line Facilities#	-	-	-	-	9.00	IVR A3

**sublimit of Working Capital/Multi-line Facilities*

 # includes sublimit of WCDL/PIF/SIF

Annexure 2: Facility wise lender details
https://www.infomerics.com/admin/prfiles/Len-AFP-Manufacturing-24july24.pdf

Annexure 3: Detailed explanation of covenants of the rated Security/facilities: Not Applicable

Annexure 4: List of companies considered for consolidated/Combined analysis: 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 www.infomerics.com.