



Rating Rationale

03 Mar 2021

Hydrise Foods Private Limited

Brickwork Ratings assigns the ratings for the Bank Loan Facilities of ₹. 100.00 Crores of Hydrise Foods Private Limited

Particulars

| Facility | Amount (₹ Crs) | Tenure | Rating* |
|--------------------------------|-------------------|------------------------------------|---|
| | Present | | Present |
| Fund Based | 25.00 | Long Term | BWR BBB- (Stable) [Assignment] |
| Proposed Fund Based | 75.00 | Long Term | |
| Total | 100.00 | INR One Hundred Crores Only | |

*Please refer to BWR website www.brickworkratings.com/ for definition of the ratings
Complete details of Bank facilities is provided in Annexure-I

RATING ACTION /OUTLOOK :-

BWR has assigned the long term ratings of **BWR BBB- (Stable)** for the sanctioned as well as proposed bank loan facilities of **Hydrise Foods Private Limited (HFPL)**. The ratings are underpinned by considerable improvement in the scale of operations and healthy financial risk profile of the company with an upward growth curve.

The rating factors in the consistently growing scale of operations, the company's established market position along with a well diversified customer base.

The ratings, however, are constrained on account of susceptibility of company's margins due to fluctuations in raw material prices, fragmented and highly competitive industry and extremely thin profit margins.

Stable outlook has been assigned on account of satisfactory interim performance in FY21, comfortable tangible net worth, low gearing and adequate debt coverage indicators.

For assigning the rating, BWR has relied upon the last 3 years of audited financials till FY20, interim performance of FY21 and projections of FY21 and FY22, publicly available information and clarifications provided by management.



Key Rating Drivers

Credit Strengths:

- **Scale of operations :-** The turnover of the company has grown at a CAGR (compounded annual growth rate) of over 90% from Rs. 148 Crs in FY18 to Rs. 564 Crs during FY20. The company has achieved sales of Rs. 765 Crs as on end december,2020 and is expected to surpass a turnover of Rs. 900.00 in FY21 , given the healthy supply orders in hand.
- **Healthy financial profile as evident from favourable capital structure and adequate coverage indicators :-** With consistently improving turnover and profitability the company stood with a tangible net worth of Rs.29.93 Crs in FY20. The capital structure is favourable as reflected by the gearing of 0.58x in FY20, with a total debt/Ebitda of 3.21x. Debt coverage indicators (interest service coverage ratio and debt service coverage ratio) stood at 4.61x and 3.75x respectively in FY20. Promoters have infused around Rs. 15 Crs during the current fiscal (FY21) and will be infusing around Rs. 20 Crs during FY22 as well.
- **Well-established and diversified client base :-** Company has a well established and diversified customer base with top 10 customers contributing less than 11% to the total sales in FY20.

Credit Risks:

- **Dependence on third party processing:** HFPL is dependent on third parties for processing of edible oil and pulses, and the outsourcing model also reflects in very thin EBITDA margins for HFPL (FY20: 0.96%). To mitigate the risk, management is in the process of acquiring additional manufacturing capacity and later merging the same with HFPL to achieve both economies of scale and improved profitability.
- **Exposure to intense competition and volatility in raw material prices:** Intense competition in the pulses, flour and edible oil processing industry, and low value addition of products, limits pricing power. Further, as primary raw materials are agri products, any shortage in production (because of pests, extreme weather conditions, or floods) makes profitability vulnerable to price fluctuation. Margin is also susceptible to restrictions imposed on imports or exports.
- **Regulatory risks:** The edible oils industry faces significant intervention by the government, given the commoditized nature of the product. The ratings are further constrained by regulatory risks such as the export duty structure in major exporting countries as well as India's import duty structure.

Analytical Approach

For arriving at its ratings, BWR has applied its rating methodology as detailed in the Rating Criteria detailed below (hyperlinks provided at the end of this rationale).



RATING SENSITIVITIES

Upward: BWR may revise the ratings upward, in case of sustained improvement in operating profitability with sustenance of adequate debt coverage indicators, along with smooth acquisition and enhancement of processing plant and proposed capacity ramp up in the coming years.

Downward: BWR may revise the rating downward, in case of significant reduction in the operating income, deterioration in debt protection metrics (ISCR below 2x) and decline in operating profitability margins.

Liquidity Analysis (Adequate) :- Cash and Cash equivalents as on 31 December 2020 stood at Rs. 1.4 Crs. The company does not have any term debt in its books as on date. Promoters have infused around Rs. 15.00 Crs within the current fiscal and have plans to further infuse around Rs. 20 Crs next fiscal as well. Working capital utilization is over 90% during the last six months but the company has recently received in principal approval for additional 15 Crs of working capital from another bank. ISCR for the company stood at over 4x and is expected to remain above 3x in the coming years.

About the Company :- Hydrise foods private limited (HFPL), incorporated in July 2016, is engaged into the manufacturing and marketing of edible oils. The company in FY21 has entered other segments like pulses, flour etc. to provide full range of products to its distributors and the same are getting good response in the market. Business operations of the company are majorly categorized into two segments viz Consumer Essentials and Industrial solutions. Consumer essentials include edible oils, pulses, dry fruits and flour whereas industrial segments include Bakery Fats and Cattle Feed.

Key Financial Indicators

| Key Parameters | Units | 2019 | 2020 |
|-------------------------------|--------------|----------------|----------------|
| Result Type | | Audited | Audited |
| Total Operating Revenue | Rs in Crs | 360.00 | 564.27 |
| EBITDA | Rs in Crs | 2.37 | 5.43 |
| PAT | Rs in Crs | 1.66 | 3.19 |
| Tangible Net worth | Rs in Crs | 17.61 | 29.93 |
| Total Debt/Tangible Net worth | Times | 0.00 | 0.58 |
| Current Ratio | Times | 1.54 | 1.35 |



Rating History for the last three years (including suspended / withdrawn ratings)

| S.No | Instrument /Facility | Current Rating (Mar, 2021) | | | Rating History | | |
|------|----------------------|------------------------------|----------------|------------------------------------|----------------|------|------|
| | | Type (Long Term/ Short Term) | Amount (₹ Crs) | Rating | 2020 | 2019 | 2018 |
| 1) | Fund Based | Long Term | 25.00 | BWR BBB- Stable [Assigned] | NA | NA | NA |
| 2) | Proposed Fund Based | Long Term | 75.00 | | NA | NA | NA |
| | Total | | 100.00 | INR One Hundred Crores Only | | | |

Status of non-cooperation with previous CRA (if applicable)- NA

Hyperlink/Reference to applicable Criteria

- [General Criteria](#)
- [Approach to Financial Ratios](#)
- [Manufacturing Companies](#)
- [Short Term Debt](#)

For any other criteria obtain hyperlinks from website

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Hydrise Food Private Limited

Annexure-I

| Facilities | Long Term (₹ Crores) | Short Term (₹ Crores) | Total (₹ Crores) |
|----------------------------------|---------------------------------|----------------------------------|-----------------------------|
| Cash credit | 20.00 | - | 20.00 |
| Covid emergency line of credit | 1.50 | - | 1.50 |
| Guaranteed emergency credit Line | 3.50 | - | 3.50 |
| Proposed fund based limit | 75.00 | - | 75.00 |
| Total | 100.00 | - | 100.00 |

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