

Rating Rationale

Brickwork Ratings Reaffirms ‘BWR BBB-’ & ‘BWR A3’ for the Bank Loan Facilities amounting to ₹31.65 Cr & Withdraws Structured Obligation (SO) assigned in March 2014 for the Bank Loan facilities of ₹23.59 Cr to Iscon Balaji Foods Private Limited

Brickwork Ratings reaffirms the **Rating¹** for the Bank Loan facilities sanctioned by Kotak Mahindra Bank amounting to ₹31.65 Cr of Iscon Balaji Foods Private Limited (“IBFPL” or “the Company”) as follows:

Facility	Limits ₹ Cr		Tenure	Previous Rating	Present Rating
	Previous	Present			
Fund Based	23.09	31.15	Long Term	BWR BBB- (SO) (Outlook:Stable)	BWR BBB- (Outlook-Stable)
Non Fund Based	0.50	0.50	Short Term	BWR A3 (SO)	BWR A3
Total	23.59	31.65	INR Thirty One Crores & Sixty Five Lakhs only		

Note: Facility details are provided in Annexure I

BWR has principally relied upon the audited financials of FY13 & FY14, provisional financials up to Dec 31, 2014 and projected financials of FY15 & FY16 of IBFPL, publicly available information and information/clarification provided by the Company’s management. BWR has also factored in the credentials of group concerns viz. JP Iscon Limited, Balaji Wafers Private Limited, SP Chips Potato Private Limited and Bharat Textiles.

The rating positively factors the promoters’ experience and their efforts towards expansion and stabilizing the operations of the newly setup flakes units, managerial and financial assistance from the group concerns and growth in operations. However, the ratings are constrained by huge debt funded capex plans, forex loss in FY14 and its continued exposure to the extent of unhedged borrowings and project risk.

Background and Management:

Iscon Balaji Food Private Limited (IBFPL) was incorporated on 25th Jan 2012 and commenced its currently operational potato flakes plant on 16th July 2013. The Directors of following group companies have jointly promoted IBFPL

¹ Please refer to www.brickworkratings.com for definition of the Ratings

1. Balaji Wafers Private Limited (Mr. Pranay C Virani & Mr. Pranav C Virani)
2. JP Iscon Limited (Mr. Jayesh Kotak & Mr. Praveen Kotak)
3. S.P. Chips Potato Private Limited (Mr. Vishal D Patel & Mr. Suresh bhai Patel)
4. Bharat Textiles (Mr. Bharat Kotak & Mr. Neel Kotak)

Mr. Neel Kotak is the Managing Director of the Company. The flakes unit has initially started with a capacity of 600kg/hour in July 2013 and subsequently expanded its capacity to 1200kg/hour in Feb 2015 by installation additional drum dryer. The Company's potato flakes manufacturing unit is located at Kanajiri, Nodiad, Kheda and registered office is at CG Road, Ahmedabad. The Company has backward integration with SP Chips Potato Private Limited for purchase of Potatoes and forward integration with Balaji Wafer Private Limited for sale of flakes. Besides the group support, the Company has tied up with other farmers for the potatoes and other well-known flake users for the finished product, in an effort to broad-base its purchases as well as sales.

Ongoing project Details:

With the successful implementation of flakes projects, the Company is further expanding its operations by setting up **“Integrated Cold Chain for Frozen French Fries and Other Vegetables”**.

The project consists of establishing an integrated cold chain for frozen French fries and frozen fruits & vegetables in Gujarat, including a Primary Processing cum Collection Center and a Processing Cum Distribution Center with facilities of IQF and Cold Storage. It will be a modern, high capacity integrated cold chain project which will link farmers to the processor and processor to the retailers. The procurement of raw material that is mainly Potato, Okra, Sweet Corn, Papaya, Pigeon Peas etc will be done locally from Gujarat. A dynamic supply chain has been designed for procurement of these products wherein farmers and bulk suppliers for processing variety of potato have been engaged in Deesa & Sabarkanta districts of Gujarat to ensure regular supply of predetermined quantity & quality.

The estimated cost of the project is ~₹ 37.50 Cr, funded in a debt/equity mix of 2.75:1 times. The financial closure for the project has taken place in Feb 2015. Land development & civil works were started in March 2015. As per the CA certificate dated April 23, 2015, the Company has incurred capital expenditure of ~₹ 0.30 Cr for the project civil works and achieved physical progress of 10%. The project is estimated to complete in nine months i.e., Nov 2015.

Financial Performance:

For the first year of operations, the Company has reported net loss of ₹0.07 Cr on net revenue of ₹14.21 Cr in FY14. As of March 31, 2014, the tangible net worth and unsecured loans from related parties stood at ₹ 4.69Cr and ₹4.80Cr. Till Jan 31, 2015 (provisional), the Company has achieved net sales around ₹39.89 Cr.

Rating Outlook

The rating outlook of IBFPL is expected to be stable in the near term. The Company's ability further scale up its operations, improve profit margins, strengthen capital structure, prudently hedge the forex exposure and implementing ongoing project as scheduled will remain the key rating sensitivities.

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Iscon Balaji Foods Private Limited-BLR Review ₹31.65Cr

Annexure I

Bank	Name of Facility	Previous Limits (₹ Cr)	Present Limits (₹ Cr)
Kotak Mahindra Bank	Cash Credit	4.00	4.00
	WCDL I Sublimit of CC	(4.00)	(3.00)
	WCDL II	Nil	3.00
	Term Loan I	9.77	7.63
	Term Loan II	9.32	11.03
	Term Loan III	Nil	3.99
	Term Loan IV	Nil	1.55
	Total Fund Based	23.09	31.15
	Capex TC/BC II	(9.32)	(11.03)
	Capex LC/TC/BC III	Nil	(3.99)
	Financial BG	0.50	0.50
	Total Non-Fund Based	0.50	0.50
	Total (Fund Based + Non Fund Based)	23.59	31.65