January 25, 2023

Tasty Bite Eatables Limited: Ratings reaffirmed; outlook revised to Stable

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based / Cash Credit (Working Capital Facilities)	75.00	75.00	[ICRA]A+ reaffirmed; Outlook revised to Stable from Negative
Short-term – Non-fund Based Facilities	2.00	2.00	[ICRA]A1 reaffirmed
Total	**77.00**	**77.00**	

**Instrument details are provided in Annexure-I*

Rationale

The revision in outlook on the long-term rating of Tasty Bite Eatables Limited (TBEL or the company) takes into consideration the improvement in its operating performance in H1 FY2023, as the challenges witnessed earlier in its key export market of USA abated. While TBEL's revenues and operating profit margins (OPM) had moderated significantly in Q2 and Q3 FY2022 to Rs. 70–90 crore and 5–10%, respectively, due to inventory build-up in USA and inflationary pressures, the same corrected subsequently, as reflected in quarterly revenues of Rs. 100–140 crore over Q4 FY2022–Q2 FY2023 and OPM of 15–16% during this period. ICRA expects the growth trends to sustain as the company focuses on organic product innovations for exports and with the rising fast food trends in the domestic market, which are expected to support TBEL's growth prospects.

The ratings continue to favourably factor in the support and strong parentage of TBEL, as part of the Mars Group (Mars) spearheaded by Mars, Incorporated, with majority sales of TBEL routed through group companies. The ratings continue to factor in the established distribution network of the Tasty Bite brand in USA, characterised by strong relationships with established retailers and distributors. ICRA also notes TBEL's sustainable business model through product innovation and technological barriers for the niche products supplied to leading brands in the domestic market; along with the positive demand outlook for the Quick Service Restaurant (QSR) industry, all of which provide adequate revenue visibility to the company.

The ratings, however, continue to be constrained by TBEL's moderate scale of operations in the intensely competitive processed foods industry, which is dominated by large players, especially in mature markets such as the US. The company continues to demonstrate high geographic and customer concentration risks with ~70% revenues generated from exports, though increasing share of domestic revenues provide some cushion. TBEL is also exposed to foreign exchange (forex) fluctuations; however, its hedging practices mitigate the same to an extent.

The Stable outlook factors in ICRA's expectation that the company will continue to benefit from the extensive experience of its promoters in the processed foods space, and the established track record of its operations. The support provided by the Mars Group operationally and financially is expected to facilitate the future growth of the company.

Key rating drivers and their description

Credit strengths

Strong parentage as part of Mars Group provides operational and financial benefits – The company enjoys financial and operational benefits as part of the Mars Group. A considerable portion of TBEL's exports is made to promoter group entities, providing it with revenue visibility. Furthermore, the Mars Group also extended financial support in the form of unsecured loan for its capital expenditure in FY2021. Associating with an established group like Mars also helps TBEL in acquiring new clients in the domestic market, providing it with further revenue growth prospects.

Established distribution network of the Tasty Bite brand in the US, marked by strong relationships with established retailers and distributors – On the back of its strong relationships with established retailers and distributors, TBEL enjoys a widespread distribution network in the US, one of the major markets of the company. The association with the Mars Group has been beneficial to the expansion plans of TBEL, helping it to access the well-established network in the US and European markets.

Sustainable business model through product innovation; technological barriers for niche products supplied to domestic markets – Product innovation remains an important aspect of TBEL's core business model, resulting in continuous addition of new products to its product portfolio. Furthermore, positive demand outlook for frozen formed products and sauces, given the healthy growth outlook of the QSR industry and technological barriers for its niche products in the domestic market, results in adequate revenue visibility and limited competition in the domestic market for the company.

Credit challenges

Moderate scale of operations in the intensely competitive processed foods industry dominated by large players – TBEL operates at a comparatively moderate scale in the intensely competitive processed foods industry dominated by large players. The competitive intensity is higher for matured markets such as the US, which is one of the key markets of TBEL.

High concentration risk with ~70% revenues from exports– TBEL faces high client and geographic concentration risks with ~70% of its revenues generated through exports, which is majorly towards its holding company, PBI. However, established relationships of the holding company with retailers and distributors in USA provide some comfort by offering revenue visibility to TBEL.

Operations remain exposed to forex fluctuations – TBEL has availed multiple borrowings in foreign currency for its capital expenditure and working capital requirements. Although these low-cost borrowings support the company's net margins, they also expose its margins to fluctuations in foreign exchange. However, export revenues provide a natural hedge against such fluctuations. The company also hedges about ~60% of its net forex exposure to mitigate forex risks.

Environmental and Social Risks

Environmental considerations – FMCG companies remain exposed to the impact of changes in environmental norms with respect to the treatment of manufacturing residual discharge/waste. Accordingly, TBEL could face operational disruptions if regulatory norms are not complied with. Further, with increasing awareness and restrictions on usage of different grades of plastics for packaging and finding environment-friendly solutions, TBEL's cost structure may be impacted. Even as there is an increasing focus on carbon neutrality, the likelihood of sudden impactful developments on this front for the FMCG industry remains low. There is also a trend towards using organically grown input materials. Such developments can potentially increase costs for FMCG companies like TBEL. Overall, entities in the FMCG industry have a low exposure to environmental risks, buttressed further by their better pricing power reflected in their ability to pass along the increase in costs over time.

Social considerations – On the social dimension, the FMCG sector has a prominent dependence on human capital, in terms of direct and indirect employees as well as contractual labour. Being an interplay of manufacturing and service business, maintaining healthy employee relations and retaining talent by an issuer as well as the supplier ecosystem is essential for disruption-free operations. Also, there could be quality concerns that FMCG entities like TBEL could face in certain product categories, which could adversely impact its brand, or risks that an entire product category could face out of the social considerations that pertain to health consciousness. While these risks are product category-specific, the overall exposure of the FMCG sector to social risks remains low to moderate.

Liquidity position: Adequate

TBEL continues to demonstrate an adequate liquidity position on the back of healthy cash flows and buffer from the undrawn working capital limits. The company had a buffer of Rs. 50.8 crore from undrawn working capital lines as on November 30, 2022, in addition to cash and liquid equivalents of Rs. 4.3 crore as on September 30, 2022. Against these, TBEL has moderate debt repayment obligations of Rs. 9-10 crore annually over the medium term. Even as its cash accruals are likely to be more than sufficient for the same, ICRA also derives comfort from TBEL's strong parentage.

Rating sensitivities

Positive factors – The ratings could be upgraded if the entity shows significant improvement in revenues as well as profitability on a sustained basis, leading to improvement in its return metrics and liquidity profile.

Negative factors – The ratings could be downgraded in case of sustained decline in revenues and profitability, or if the company undertakes any major debt-funded capital expenditure leading to deterioration in the credit profile, marked by Total Debt/OPBITDA of more than 2.3 times on a sustained basis. Weakening of the credit profile of the parent company or weakening of business and/or financial linkages between the parent company and the entity could also warrant a rating downgrade.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for the Entities in the Fast Moving Consumer Goods (FMCG) Industry Impact of Parent or Group Support on an Issuer's Credit Rating
Parent/Group support	Parent/Group Company: Mars, Inc. The ratings are based on implicit support from Mars, Inc., as TBEL and Mars, Inc., both operate in the business of food products with significant business linkages between them in terms of product offerings and geographies covered.
Consolidation/Standalone	The ratings are based on the standalone financial statements of TBEL.

About the company

Tasty Bite Eatables Limited is a manufacturer of ethnic and natural vegetarian packaged and ready-to-eat/serve (RTE) food products, sold under the Tasty Bite brand in the US, Australia, the UK, Germany and Canada. The company also offers a range of unique products such as sauces, meals and frozen food in the domestic market through its business segment, Tasty Bite Food Service (TFS). TBEL is a part of the Preferred Brands Group of companies, acquired by the latter in 1999. The Group's holding company is Preferred Brands International Inc. (PBI), located in Stamford, Connecticut, USA, which in turn is 100% owned by Mars, Inc., USA. PBI is in the business of marketing and reselling RTE foods under the Tasty Bite brand in USA, while its associate Mars companies are engaged in marketing and reselling RTE food products in Australia, the UK, Germany and Canada. TBEL is listed on the Bombay Stock Exchange (BSE) and National Stock Exchange (NSE). The company's manufacturing facility is at Bhandgaon, Maharashtra.

Key financial indicators (audited)

TBEL Standalone	FY2021	FY2022	H1 FY2023
Operating income	400.3	381.3	260.6
PAT	39.3	10.3	17.3
OPBDIT/OI	17.2%	11.4%	13.1%
PAT/OI	9.8%	2.7%	6.6%
Total outside liabilities/Tangible net worth (times)	1.2	1.0	0.9
Total debt/OPBDIT (times)	2.5	3.2	2.0
Interest coverage (times)	22.7	5.3	7.6

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2023)					Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as of Nov 30, 2022 (Rs. crore)	Date & rating in FY2023	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020
					Jan 25, 2023	May 05, 2022	-	Mar 30, 2021	Mar 11, 2020
1	**Cash credit**	Long term	75.0	24.8	**[ICRA]A+ (Stable)**	**[ICRA]A+ (Negative)**	-	**[ICRA]A+ (Stable)**	**[ICRA]A (Stable)**
2	**Non-Fund Based facilities (Bank Guarantee)**	Short term	2.0	NA	**[ICRA]A1**	**[ICRA]A1**	-	**[ICRA]A1**	**[ICRA]A1**

Complexity level of the rated instruments

Instrument	Complexity Indicator
Cash credit	Simple
Non-Fund Based facilities (Bank Guarantee)	Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Cash Credit**	NA	NA	NA	75.00	[ICRA]A+(Stable)
NA	**Bank Guarantee**	NA	NA	NA	2.00	[ICRA]A1

Source: Company

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis – Not Applicable

ANALYST CONTACTS

Shamsher Dewan
+91 124 4545328
shamsherd@icraindia.com

Kinjal Shah
+91 022 61143400
kinjal.shah@icraindia.com

Sruthi Thomas
+91 124 4545822
sruthi.thomas@icraindia.com

Karan Punjabi
+91 022 61693358
karan.punjabi@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee
+91 80 4332 6401
jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches