CRISIL
Ratings

Rating Rationale

June 20, 2023 | Mumbai

Agro Tech Foods Limited

Ratings downgraded to 'CRISIL A+/Stable/CRISIL A1'

Rating Action

Total Bank Loan Facilities Rated	**Rs.247 Crore**
Long Term Rating	**CRISIL A+/Stable (Downgraded from 'CRISIL AA-/Negative')**
Short Term Rating	**CRISIL A1 (Downgraded from 'CRISIL A1+')**

Note: None of the Directors on CRISIL Ratings Limited's Board are members of rating committee and thus do not participate in discussion or assignment of any ratings. The Board of Directors also does not discuss any ratings at its meetings.
1 crore = 10 million
Refer to Annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL Ratings has downgraded its ratings on the bank facilities of Agro Tech Foods Limited (Agro Tech) to '**CRISIL A+/Stable/CRISIL A1**' from 'CRISIL AA-/Negative/CRISIL A1+'.

The rating action reflects lower-than-expected operating performance of Agro Tech in fiscal 2023. Operating income declined to Rs 850 crore with operating margin at 5.3% in fiscal 2023 from Rs 917 crore and 5.9%, respectively, in fiscal 2022. The decline in revenue was driven by the oils business wherein the premium staple business witnessed 8% degrowth year on year against CRISIL Ratings expectations. Furthermore, mass staples revenue declined significantly owing to franchising of Crystal and overall realignment to reduce exposure to this segment . The staples business is expected to show a marginal decline going forward. While the foods business registered growth of 9% in fiscal 2023, this was lower than expected owing to dip in the ready-to-cook segment because of high base effect amid the Covid-19 pandemic. The food business is expected to show healthy growth driving overall revenue, over the medium term and will be a key monitorable.

Operating margin was subdued in the first half of fiscal 2023 owing to high input cost and increase in other expenses such as travel and conveyance. The operating margin recovered in the second half of this fiscal, and sustenance of the same will be a key monitorable.

Debt stood at Rs 52 crore as on March 31, 2023, compared with Rs. 39 crore debt a year earlier, because of increase in commodity prices, though the overall financial risk profile remains strong.

The ratings reflect the established position of the company in the branded edible oil business, growing contribution from the high-margin food business, support from Conagra Brands Inc (Conagra; rated 'BBB-/Negative/A-3' by S&P Global Ratings) and a strong financial risk profile. These strengths are partially offset by exposure to inherent risks in agro-based business and modest profitability, with significant sales coming from the competitive, low-margin edible oil business.

Analytical Approach

For arriving at its ratings, CRISIL Ratings has combined the business and financial risk profiles of Agro Tech and its subsidiaries. Also, CRISIL Ratings has applied its parent notch-up framework to factor in the extent of support available to Agro Tech from its parent, Conagra.

Please refer Annexure - List of Entities Consolidated, which captures the list of entities considered and their analytical treatment of consolidation.

Key Rating Drivers & Detailed Description

Strengths:

Established market position in branded edible oils, with continued growth in the food business: Agro Tech's established market position and improving revenue diversity will continue to support the business risk profile. Its edible oil brand, Sundrop, has high recall and enjoys premium pricing. However, the company has been focused on increasing the revenue share of its food business over the past 2-3 fiscals driven by an expanding product portfolio. Operating income from the food business grew 9% on-year in fiscal 2023 backed by growth in the ACT II products (in the ready-to-eat snacks business) and other new businesses, such as chocolates confectionery and breakfast cereals. As a result, the revenue share of the food business increased to 52% in fiscal 2023 from 44% in fiscal 2022. The share of the foods business will increase further supported by new product launches and marginal decline in the Staples business.

Strong financial risk profile: The financial risk profile was healthy, supported by adjusted networth of Rs 471 crore as on March 31, 2023. While debt increased to Rs 52 crore as on March 31, 2023, from Rs. 39 crore debt as on March 31, 2022, owing to higher inventory holding amid rise in commodity prices, the debt is expected to reduce over the medium term. While cash accrual was subdued at ~Rs 30 crore during fiscal 2023, debt protection metrics were strong, as reflected in adjusted interest coverage ratio above 14 times in fiscal 2023. The financial risk profile will remain comfortable over the medium term in the absence of long-term debt or significant capital expenditure (capex).

Support from the parent: Access to Conagra's branded foods portfolio, including ACT II (popcorn), has helped Agro Tech to steadily improve its branded foods portfolio in India. Continued focus on A CT II product portfolio and steady addition of food products under the Sundrop brand have resulted in higher revenue contribution from the food business.

Weaknesses:

Susceptibility to risks associated with agro-based business: The edible oil business remain s susceptible to risks pertaining to availability of oil, regulatory changes and pricing. Availability of oil, both in the domestic and international markets, is linked to oilseed production, which in turn is vulnerable to factors such as monsoon, acreage under cultivation and yield. The edible oil and packaged food industries also face significant intervention from the government, given the commoditised nature of products. To ensure remunerative prices to farmers, the government fixes the minimum support price on oilseeds periodically. Moreover, recent geopolitical tensions have resulted in disruption in import of sunflower and palm oil s, which may impact sourcing.

Modest operating profitability amid intense competition: Around 48% of the revenue came from the edible oil business in fiscal 2023. Though the company commands premium prices on edible oils by virtue of its strong brand, profit margin is lower than that of integrated branded oil manufacturers. Consolidated operating margin declined to 5.3% in fiscal 2023 from 5.9% in the previous fiscal owing to rise in input prices especially in the first half of the fiscal . Over the medium term, the operating margin will remain sensitive to movements in commodity prices, limited pricing flexibility amid intense competition, and level of sales promotion and advertising expenditure required to support the increasing scale of operations in the branded foods business.

Liquidity: Strong

Cash and equivalent Furthermore, fund-based limits of Rs 167 crore remained largely unutilised for the last 12 months through March 31, 2023. The company does not have major long-term debt obligation, with nil long term debt as on March 31, 2023. Capex is expected to remain moderate in fiscals 2024 and 2025 and will be funded through yearly cash accrual of Rs 35-45 crore.

Outlook: Stable

CRISIL Ratings believes Agro Tech will continue to benefit from its established brand, large product profile in the food business and steady operating margin. The financial risk profile will remain healthy supported by low debt and strong debt protection metrics.

Rating Sensitivity factors
Upward factors:
- Improvement in the credit risk profile of Conagra leading to upward revision in rating by one or more notch es
- Significant and sustained growth in revenue and operating margin

Downward factors:
- Weakening in the credit risk profile of Conagra, leading to downward revision in its rating
- Moderation in revenue growth and operating margin sustaining below 5% leading to lower cash accrual
- Large, debt-funded capex or acquisition

About Agro Tech
Incorporated in 1986, Agro Tech has an established market position in the edible oil and branded food business in India; its primary brands are Sundrop, Crystal and ACT II. Over the past few years, the company has diversified its portfolio to focus on high-margin, value-added products. It has strengthened its position in the branded f oods market by introducing new products such as sweet corn, chocolate spreads, hummus, extruded breakfast cereals, granola cereals and chocolate confectionery.

About Conagra
With annual revenue exceeding USD 11.5 billion, Conagra is one of the lea ding food players in North America. It held majority stake of 51.77% in Agro Tech as on March 31, 2023.

For fiscal 2023, Agro Tech reported operating income of Rs 850 crore and profit after tax (PAT) of Rs 15 crore, against Rs 917 crore and Rs 26 crore, respectively, for the previous fiscal.

Key Financial Indicators

As on / for the year ended March 31		2023	2022
Revenue	Rs crore	850	917
Profit after tax (PAT)	Rs crore	15	26
PAT margin	%	1.8	2.8
Adjusted debt / adjusted networth	Times	0.11	0.09
Adjusted interest coverage	Times	14.22	23.5

Any other information: Not applicable

Note on complexity levels of the rated instrument:
CRISIL Ratings` complexity levels are assigned to various types of financial instruments and are included (where applicable) in the 'Annexure - Details of Instrument' in this Rating Rationale.

CRISIL Ratings will disclose complexity level for all securities - including those that are yet to be placed - based on available information. The complexity level for instruments may be updated, where required, in the rating rationale published subsequent to the issuance of the instrument when details on such features are available.

For more details on the CRISIL Ratings` complexity levels please visit www.crisilratings.com. Users may also call the Customer Service Helpdesk with queries on specific instruments.

Annexure - Details of Instrument(s)

ISIN	Name of instrument	Date of allotment	Coupon rate (%)	Maturity date	Issue size (Rs crore)	Complexity levels	Rating assigned with outlook
NA	Bank Guarantee	NA	NA	NA	10	NA	CRISIL A1
NA	Cash Credit	NA	NA	NA	5	NA	CRISIL A+/Stable
NA	Cash Credit*	NA	NA	NA	80	NA	CRISIL A+/Stable
NA	Letter of credit	NA	NA	NA	5	NA	CRISIL A1
NA	Letter of credit & Bank Guarantee	NA	NA	NA	25	NA	CRISIL A1
NA	Proposed Long Term Bank Loan Facility	NA	NA	NA	45	NA	CRISIL A+/Stable
NA	Standby Letter of Credit	NA	NA	NA	5	NA	CRISIL A1
NA	Working Capital Demand Loan	NA	NA	NA	30	NA	CRISIL A+/Stable
NA	Working Capital Loan#	NA	NA	NA	42	NA	CRISIL A+/Stable

** Fully interchangeable between fund-based facility and non-fund based facility*
 # Interchangeable between working capital loan and cash credit

Annexure – List of entities consolidated

Names of entities consolidated	Extent of consolidation	Rationale for consolidation
Sundrop Foods India Pvt Ltd	Fully consolidated	Strong business and financial linkages
Agro Tech Foods (Bangladesh) Pvt Ltd	Fully consolidated	Strong business and financial linkages
Sundrop Foods Lanka Pvt Ltd	Fully consolidated	Strong business and financial linkages

Annexure - Rating History for last 3 Years

	Current			2023 (History)		2022		2021		2020		Start of 2020
Instrument	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund Based Facilities	LT	202.0	CRISIL A+/Stable		--	02-05-22	CRISIL AA-/Negative	20-08-21	CRISIL AA-/Stable	17-08-20	CRISIL AA-/Stable	CRISIL AA-/Stable
			--		--		--		--	02-03-20	CRISIL AA-/Negative	--
Non-Fund Based Facilities	ST	45.0	CRISIL A1		--	02-05-22	CRISIL A1+	20-08-21	CRISIL A1+	17-08-20	CRISIL A1+	CRISIL A1+
			--		--		--		--	02-03-20	CRISIL A1+	--
Commercial Paper	ST		--		--		--	20-08-21	Withdrawn	17-08-20	CRISIL A1+	CRISIL A1+
			--		--		--		--	02-03-20	CRISIL A1+	--

All amounts are in Rs.Cr.

Annexure - Details of Bank Lenders & Facilities

Facility	Amount (Rs.Crore)	Name of Lender	Rating
Bank Guarantee	10	The Hongkong and Shanghai Banking Corporation Limited	CRISIL A1
Cash Credit&	35	HDFC Bank Limited	CRISIL A+/Stable
Cash Credit	5	YES Bank Limited	CRISIL A+/Stable
Cash Credit&	45	BNP Paribas Bank	CRISIL A+/Stable
Letter of Credit	5	The Bank of Tokyo Mitsubishi Ufj Limited	CRISIL A1
Letter of credit & Bank Guarantee	25	HDFC Bank Limited	CRISIL A1
Proposed Long Term Bank Loan Facility	45	Not Applicable	CRISIL A+/Stable
Standby Letter of Credit	5	YES Bank Limited	CRISIL A1
Working Capital Demand Loan	30	The Bank of Tokyo Mitsubishi Ufj Limited	CRISIL A+/Stable
Working Capital Loan%	42	The Hongkong and Shanghai Banking Corporation Limited	CRISIL A+/Stable

& - Fully interchangeable between fund-based facility and non-fund based facility
% - Interchangeable between working capital loan and cash credit

Criteria Details

Links to related criteria
CRISILs Approach to Financial Ratios
Rating criteria for manufaturing and service sector companies
CRISILs Bank Loan Ratings - process, scale and default recognition
Rating Criteria for Fast Moving Consumer Goods Industry
Mapping global scale ratings onto CRISIL scale
CRISILs Criteria for rating short term debt
Criteria for Notching up Stand Alone Ratings of Companies based on Parent Support
CRISILs Criteria for Consolidation

Media Relations	Analytical Contacts	Customer Service Helpdesk
Aveek Datta Media Relations **CRISIL Limited** M: +91 99204 93912 B: +91 22 3342 3000 AVEEK.DATTA@crisil.com **Prakruti Jani** Media Relations **CRISIL Limited** M: +91 98678 68976 B: +91 22 3342 3000 PRAKRUTI.JANI@crisil.com **Rutuja Gaikwad** Media Relations **CRISIL Limited** B: +91 22 3342 3000 **Rutuja.Gaikwad@ext-crisil.com**	Manish Kumar Gupta Senior Director **CRISIL Ratings Limited** B:+91 124 672 2000 manish.gupta@crisil.com Naveen Vaidyanathan Director **CRISIL Ratings Limited** B:+91 44 6656 3100 naveen.vaidyanathan@crisil.com Shubham Aggarwal Manager **CRISIL Ratings Limited** B:+91 124 672 2000 shubham.aggarwal@crisil.com	Timings: 10.00 am to 7.00 pm Toll free Number:1800 267 1301 For a copy of Rationales / Rating Reports: CRISILratingdesk@crisil.com For Analytical queries: ratingsinvestordesk@crisil.com

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