FLEX FOODS LTD.
'Indian Produce, Global Delight'

FFL/SEC/2024/ 2nd January, 2024

The BSE Limited
Corporate Relationships Department
1st Floor, New Trading Ring,
Rotunda Building, P J Towers,
Dalal Street, Fort,
Mumbai – 400 001

Scrip Code: 523672

Subject: Intimation in respect of Credit Ratings under the SEBI (Listing Obligations and Disclosure Requirements), Regulations, 2015

Dear Sir(s),

Pursuant to the provisions of Regulation 30 of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015, we wish to inform you that the India Ratings and Research (Ind-Ra) has revised Flex Foods Limited (FFL) ratings. The instrument-wise rating actions are as follows:

Instrument Type	Coupon Rate	Date Of Issuance	Maturity Date	Amount (million)	Rating/Outlook	Rating Action
Fund-based working capital limit	-	-	-	INR247.40	IND BB+/Negative/IND A4+	Downgraded
Non-fund-based working capital limit	-	-	-	INR25	IND BB+/Negative/IND A4+	Downgraded
Term Loan	-	-	March 2030	INR1,620	IND BB+/Negative	Downgraded
Fund-based working capital limit				INR 152.60	IND BB+/Negative/IND A4+	Assigned
Non-fund-based working capital limit				INR 25	IND BB+/Negative/IND A4+	Assigned

Rating rationale released by India Ratings and Research (Ind-Ra) is enclosed as **'Annexure A'**.

The above is for your information and record please.

Thanking you,

Yours faithfully,
For FLEX FOODS LIMITED
HIMANSHU LUTHRA Digitally signed by HIMANSHU LUTHRA
Date: 2024.01.02 19:46:25 +05'30'

(Himanshu Luthra)
Company Secretary

Encl: As above

Annexure A

The downgrade reflects a significant deterioration in FFL's EBITDA margin, credit metrics and liquidity position during FY23; the Negative Outlook reflects the likelihood of further weakening in the same during FY24.

Key Rating Drivers

Sharp Decline in Profitability: FFL's EBITDA fell to INR111.30 million in FY23 (FY22: INR182.30 million), with the EBITDA margin declining to 9.49% (16.51 %), due to the fixed cost incurred for the new unit in Krishnagiri, Tamil Nadu, a dip in realisations, and lower-than-expected revenue. Furthermore, the company incurred losses in 2QFY24 because of a continued increase in the fixed costs at the new unit in Krishnagiri and negligible revenue earned from the unit. Ind-Ra expects the margin to improve from FY25 with the likely stabilisation of the operations of the Krishnagiri unit.

Significant Deterioration Credit Metrics: FFL's credit metrics weakened considerably in FY23 owing to the dip in EBITDA levels and higher-than-expected debt-funded capex to increase capacity at its Krishnagiri plant. The net leverage (net debt/EBITDA) was 20.98x in FY23 (FY22: 7.35x) and interest coverage (EBITDA/interest cost) was 0.69x (7.50x). The net leverage and interest coverage are likely to deteriorate further in FY24 because of a likely decline in the EBITDA levels and high interest cost. Ind-Ra expects the net leverage to improve from FY25, backed by the likely increase in the EBITDA.

Liquidity Indicator - Stretched: FFL's average use of the working capital limits was 85% over the 12 months ended October 2023, with utilisation in the form of packing credit facility and bill discounting. The company's free cash flows continued to be negative at INR1,002.70 million in FY23 (FY22: INR1,318 million), primarily due to significant capex of INR1900 million incurred during the year combined with moderate profitability. Furthermore, the current ratio stood at 1x in FY23, thereby reflecting the stretched liquidity. Ind-Ra expects the working capital requirement to remain high in FY24 due to the long inventory holding period (FY23: 157 days; FY22: 97 days), owing to business seasonality. The company has received a sanctioned fund-based facility enhancement of INR175 million to support the incremental working capital requirement from the new plant. The company had unencumbered cash balance of INR22.2 million at FYE23 (FYE22: INR64.5 million), against scheduled repayments of INR165 million for FY24 and INR218 million for FY25, for which it might require support from group companies. As on 30 September 2023, the company received funding support of about INR597 million from related group entities in the form of unsecured loans to support the operations, with no defined repayment obligation.

Lower-than-expected Revenue Generation: FFL's revenue during FY23-FY24 has been lower than Ind-Ra's expectations due to a delay in the stabilisation of the Krishnagiri unit and a dip in demand in the export market, especially in Europe. The company's revenue increased marginally to INR1,173.30 million in FY23 (FY22: INR1,104.20 million) due to higher volumes. FFL is likely to achieve turnover of INR1,150 million - INR1,250 million in FY24. The company's new unit at Krishnagiri commenced operations partially in October 2022 with four chambers, and an additional two chambers were added in April 2023. However, the new unit did not register any significant growth due to lower demand from the European market, which contributes about 65 % to FFL's total revenue. Paucity of demand resulted in the dip in realisation in 2HFY23. While the realisation picked up in FY24, improvement in the turnover in the near-to-medium term will remain key monitorable.

Industry Risks: FFL is vulnerable to agro-climatic risk, as well as seasonality in production of fruits, vegetables and herbs. Furthermore, the company is exposed to risks arising from regulatory changes and adverse forex fluctuations as it derives a major portion of its revenue from Europe and the US.

Strong Parentage: FFL is a UFlex group company, with Uflex Limited ('IND AA-'/Stable) holding 47.15% stake at FYE23. The support from the strong parent is evident from the inflow of unsecured loans of INR430 million into FFL from the group entity in FY23 to support the operations. Furthermore, the amount increased to INR597 million as on
30 September 2023 to support the losses. Ind-Ra expects the group to continue to offer support to FFL to meet its debt servicing requirements.

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