

April 26, 2023

Prataap Snacks Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Cash credit	98.00	80.00	[ICRA]A+ (Stable); reaffirmed
Long-term – Unallocated	2.00	20.00	[ICRA]A+ (Stable); reaffirmed
Total	100.00	100.00	

*Instrument details are provided in Annexure-I

Rationale

The rating reaffirmation reflects ICRA's opinion that Prataap Snacks Limited (PSL) will witness moderate growth in revenues in the near-to-medium term, supported by its expanding geographic presence. The company has a strong integrated sales and distribution network ensuring effective market penetration across India. PSL's manufacturing facilities, including contract manufacturers, are strategically located across India, which has facilitated lower logistics cost, de-risking from concentration in one facility, reducing transit time and improving service rate. The rating also factors in the company's limited dependence on bank debt supported by an inherently low working capital intensity of the business. The rating continues to derive support from the experience of the promoters in the snack food industry, the company's diversified product portfolio and brand presence in majority of states and Union Territories (UT).

However, the rating is constrained by the volatility of the company's profit margins to any adverse movements in raw material prices, which may also be linked to agro-climatic conditions. The margin volatility was evident during Q4 FY2022 and Q1 FY2023, wherein PSL reported a substantial decline in its operating profit margin (OPM) due to a sharp increase in input costs, mainly edible oil and laminates. However, the OPM started improving from Q2 FY2023 onwards led by the decline in input cost and various measures taken by the company, including an increase in the final selling price. The company's OPM is expected to benefit from the softening of key input prices over the last few months, which will aid its cash accrual growth. In addition to the pressure on OPM, the company's return metrics have been weak over the last few years, given continued organic and inorganic expansions. PSL is setting up new capacities in Jammu, which will be partly debt funded. Its ability to timely implement the capex and generate commensurate returns will be a key rating monitorable. The company is also exposed to the intense competition in the snacks business from large multinationals as well as regional players. Being present in the small-sized pack segment, which consumers typically buy on an impulse, it is challenging for the company to pass on the increase in raw material prices amid the intense competition. ICRA also notes that there has been a delay in insurance recovery for a fire incident in PSL's Kolkata manufacturing unit in November 2021.

The Stable outlook reflects ICRA's expectations that PSL will continue to benefit from the diversified product portfolio designed as per the taste of Indian consumers and PSL's expanding geographical presence across India. Approval for capex under the Production Linked Incentive (PLI) scheme and steady demand for packaged foods driven by urbanisation, changing lifestyles/customer preferences, and favourable demographics augur well for PSL's business.

Key rating drivers and their description

Credit strengths

Extensive experience of promoters in FMCG industry – The promoters of PSL have more than two decades of experience in the snack food industry and manage the day-to-day operations in the business. The company commenced operations in trading

snack foods from 2003 and, subsequently, began its manufacturing operations from 2007. Over the years, PSL has been expanding its product portfolio and increasing its presence across the country under the leadership of its chairman, Mr. Arvind Mehta, and Managing Director, Mr. Amit Kumar.

Strong distribution network and strategically located manufacturing facilities – PSL has a strong supply chain and integrated network of more than 5000 distributor and sub-distributors ensuring effective market penetration. The company has a strong presence in the market where it operates. The company has also realigned its majority of network to a two-layer distribution model from a three-layer one to optimise distribution costs. PSL has manufacturing facilities across India, which has enabled it in lowering logistics cost, de-risking from concentration towards one facility, reducing transit time and improving serve rate, i.e., availability of products closer to delivery schedule. The company has six owned manufacturing facilities, and nine contract manufacturing facilities which are well placed to serve key target markets. PSL is incurring further expansion, particularly in Jammu to strengthen its capabilities to serve North India. The company has reported healthy growth in FY2022 and 9M FY2023, and the momentum is likely to continue in FY2024 as well.

Well-diversified product portfolio – PSL has a well-diversified product portfolio with over 125 stock keeping units (SKU) across four segments, including a wide range of savoury and sweet food items, flavours and SKUs addressing a large consumer base. Within the snacks category, the company offers chips, extruded snacks, pellets, namkeens and sweet snacks. The company sells products under three brands, namely Yellow Diamond, Avadh and Rich Feast.

Comfortable debt coverage and adequate liquidity position – PSL's modest working capital intensity of business and low reliance on external debt have resulted in low gearing of 0.1 times and TOL/TNW of 0.5 times as on March 31, 2022. The coverage metrics have remained comfortable, reflected in net debt/OPBDITA of 0.2 times and interest coverage of 8.7 times in FY2022. In FY2023 also, PSL did not contract any sizeable external debt, though it plans to avail loan for its Jammu facility, which will be available with an interest subvention. Going forward, coverage indicators and liquidity are likely to remain comfortable as well due to low reliance on bank debt and healthy cash generation from business. In addition, PSL has an adequate liquidity profile, characterised by sizeable cash and liquid investment balances, and adequate undrawn working capital limits.

Credit challenges

Pressure on margins and return metrics; likely to improve from FY2024 onwards – PSL's profitability declined during FY2021 and FY2022 due to Covid-19-related lockdowns as well as closure of schools/ colleges, which are part of key catchments for its products. The profit margins remained under pressure subsequently also due to the continued rise in input costs, particularly primary packaging (films) and edible oil, under absorption of overheads and its inability to pass on the rise in input cost to customers. However, the company is likely to benefit primarily from the correction in key input prices in the recent months. PSL's return metrics have been subdued over the past few years owing to pressure on margins and deployment of capital in organic and inorganic¹ growth. The company is further adding capacity in Jammu. Thus, its ability to timely implement the capex and generate commensurate returns to improve its return metrics remains crucial.

Volatility in margins associated with seasonality of agro-based raw materials – PSL's major raw materials are all agricultural products and include edible oil (refined palm oil), potatoes, rice, corn and gram. Dependency on monsoons and weather conditions, exposes the company's margins to fluctuations in raw material prices.

Competition from organised and unorganised players – PSL operates in the food industry, wherein it faces competition from large multinationals and local/regional players and in turn, is exposed to pricing pressure. Having a moderate brand presence and operating in the small-sized pack segment, which consumers typically buy on an impulse, it is challenging for the company to pass on the increase in raw material prices amid the intense competition.

¹ The company had acquired Avadh Snacks Private Limited (ASPL) in FY2019. ASPL has presence in namkeen and pellet snack segment in western states and has been reporting moderate cash accrual growth

Environmental and Social Risks

Environmental considerations: FMCG companies remain exposed to the impact of any changes in environmental norms with respect to the treatment of manufacturing residual discharge/waste. Accordingly, PSL 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, PSL's cost structure may be impacted. Even as there is an increasing focus on carbon neutrality, the likelihood of any 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. As PSL has a healthy dependence on agri commodities, the company remains exposed to agro-climatic risks, which could result in variations in crop output/prices. 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 PSL could face, 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 in product category-specific, the overall exposure of the FMCG sector to social risks remains low to moderate.

Liquidity position: Adequate

PSL's liquidity profile is **adequate**, supported by free cash and bank balances of about Rs. 50 crore as of March 2023 along with cushion in fund-based limits, which were sparsely utilised (Rs. 77.0-crore undrawn limits as of March 2023). Further, healthy cash flow generation and inherently low working capital intensity of the business, aids the liquidity position of the company. The company has a plan to draw ~Rs. 75-crore term loan in FY2024 for the ongoing capital expenditure (~Rs. 90-100 crore in FY2024) for capacity enhancement and new manufacturing unit in Jammu. The company's cash accrual generation (~Rs. 50-60 crore annually) and the available working capital limit will be adequate to address its repayment and working capital requirements. There is no long-term debt repayment in FY2024; the repayment of the proposed term loan is likely to commence in FY2025.

Rating sensitivities

Positive factors – The rating could be upgraded, if the company achieves healthy growth in revenues, increased diversification across products and improvement in its profitability, while maintaining a comfortable credit profile.

Negative factors – The rating could be downgraded, if there is any material decline in the company's revenues and profitability. Additionally, PSL's rating would be prone to a downgrade if it undertakes any aggressive debt-funded capex or experiences a significant stretch in its working capital cycle, which weakens its credit profile. In terms of specific credit metrics, OPM less than 4% and Net debt²/OPBDITA more than 1.5 times, on a sustained basis, would be a negative rating trigger.

² total debt-less free cash & bank balance

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in the Fast-Moving Consumer Goods (FMCG) Industry
Parent/Group support	Not applicable
Consolidation/Standalone	For arriving at the rating, ICRA has considered the consolidated financials of PSL.

About the company

Prataap Snacks Limited, promoted by Mr. Arvind Mehta, Mr. Apoorva Kumat and Mr. Amit Kumat, is an Indian snack food company engaged in manufacturing and marketing of multiple product variants across potato chips, extruded snacks and traditional Indian savouries (*namkeen*) under the Yellow Diamond brand and sweet snacks under the Rich Feast brand. In FY2019, it entered the Gujarat market through the acquisition of Avadh Snacks Private Limited. As on date, it operates through 15 manufacturing facilities, of which six are company owned and nine are on a contract manufacturing basis. At present, the private equity player, the Sequoia Group holds a 48.4% stake in the company, which is designated as a foreign promoter. PSL's shares are listed on the BSE and the NSE.

Key financial indicators (audited/ unaudited)

Prataap consolidated	FY2021	FY2022	9M FY2023*
Operating income	1171.1	1396.6	1266.3
PAT	14.2	2.9	(1.3)
OPBDIT/OI	5.4%	4.2%	3.4%
PAT/OI	1.2%	0.2%	-0.1%
Total outside liabilities/Tangible net worth (times)	0.4x	0.5x	-
Total debt**/OPBDIT (times)	0.9x	1.4x	-
Net debt/OPBDIT (times)	(0.2x)	(0.3x)	-
Interest coverage (times)	10.1x	8.7x	8.5x

Source: Company, *unaudited, **debt mainly includes lease liabilities

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amounts 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 (FY2024)			Chronology of rating history for the past 3 years			
	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)*	Date & rating in FY2024	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020
				April 26, 2023	Jan 31, 2022	Nov 19, 2020	Aug 30, 2019
1 Cash Credit	Long Term	80.00	-	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	-	-
2 Unallocated	Long Term	20.00	-	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)

Source: Company,

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term – Cash Credit	Simple
Long-term – Unallocated	NA

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	80.00	[ICRA]A+ (Stable)
NA	Unallocated	NA	NA	NA	20.00	[ICRA]A+ (Stable)

Source: Company

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Annexure II: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Prataap Snacks Limited	NA*	Full Consolidation
Avadh Snacks Private Limited	90.48%	Full Consolidation

Source: Company, *parent company

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