April 11, 2017

Prataap Snacks Limited
(Formerly known as Prataap Snacks Private Limited

Instrument*	Rated Amount (in crore)	Rating Action
Long-term Fund-based cash credit	16.00	Upgraded to [ICRA]A from [ICRA]A-; outlook is "Stable"
Long term Fund based Term loan	42.00	Upgraded to [ICRA]A from [ICRA]A-; outlook is "Stable"
Total	**58.00**	

**Instrument details are provided in Annexure-1*

Rating action

ICRA has upgraded the long-term rating to [ICRA]A (pronounced ICRA A) from its earlier rating of [ICRA]A- (pronounced ICRA A minus)[1] on the Rs. 58.00-crore bank facilities of Prataap Snacks Limited ("PSL" or "the company"). The outlook on the long-term rating is 'Stable'.

Detailed rationale

ICRA's rating upgrade reflects the company's healthy sales volumes and higher realisation in the extruded snacks and namkeen segment, resulting in a y-o-y top-line growth of ~35% in FY2016. Furthermore, the softening in the key raw material prices (pulses, potato, rice, and edible oil) along with benefits of operating leverage has helped the operating profit margins to improve in FY2016. Net cash accruals of the company stood at Rs. 42.3 crore in FY2016 compared to Rs. 19.6 crore in the corresponding previous year, which coupled with comparatively lesser fixed repayment obligations has resulted in comfortable debt protection metrics. ICRA expects PSL's top-line growth to remain healthy in FY2017, owing to marketing initiatives and sales promotional efforts of the company. The liquidity profile of the company has improved in the past couple of years, mainly on account of healthy cash accruals and low working capital intensity.

The company commenced its second unit in Guwahati, Assam which enabled it to increase its market presence in the eastern region. Furthermore, ICRA expects the company to continue to focus on brand promotion through increased ad spends and promotions, which will preclude any major improvement in the operating margins in the near term, despite increasing sales. The company's capital expenditure plan for the next three years, amounting to Rs. 72-crore (approx.), would be funded comfortably with internal accruals. The proposed initial public offering (IPO) would provide additional liquidity to the company.

However, ICRA's rating is constrained by the intense competition in the snacks and savory industry, which has a large number of unorganised and various well-entrenched players with strong brands, which affects the ability of the company to pass on any increase in raw material costs to its consumers. Furthermore, the capacity utilisation of the chips manufacturing facility continues to remain subdued, thereby impacting the return indicators.

Going forward, the company's ability to increase its plant capacity as well as the market share and ensure sustainable profit margins would be the key rating sensitivity. Any sizeable debt-funded capex, beyond the proposed plans shared with ICRA, will be crucial. The company has provided corporate guarantee to

[1] For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications

the lenders of its wholly-owned subsidiary i.e. Pure N Sure Food Bites Private Limited for a term loan taken by the latter, the timely repayment of the term loan taken by the subsidiary would be monitored throughout the tenure of the guarantee.

Key rating drivers

Credit strengths

- Consistent growth in revenue backed by increase in production capability through regular capex; healthy financial risk profile and capital structure
- Experienced promoters with long presence in the food processing business
- Strong distribution network helps post high growth despite strong competition
- Location with the manufacturing plants in Indore, a key hub for chip grade potato production in India, and Guwahati, which gets exemptions from both income tax and other indirect taxes such as excise and VAT
- High capacity utilisation of manufacturing capacity of namkeen/extruded snacks
- Comfortable financial profile with favourable capital structure, healthy cash accruals and strong debt protection measures

Credit weaknesses

- Exposure to raw material price fluctuation coupled with limited flexibility to pass on the increase in raw material costs to consumers
- Strong competition from both unorganised players as well as established players such as Frito-Lays, ITC, Parle Agro etc
- Limited growth in the potato chips segment in the past couple of years on account of intense competition keeps the manufacturing capacity underutilised
- Regular need to undertake capex on account of growing sales as well as increasing marketing expenses keeps liquidity under check

Description of key rating drivers

The rating action favourably factors in the healthy market position of the company in the organised market for extruded snacks and potato chips; and its growing brand presence as well as wide distribution network that has helped the company to record a healthy revenue growth over the past few years. ICRA also derives comfort from the long experience of the promoters in the food processing industry as well as the healthy financial risk profile of the company. The company has been consistently expanding its manufacturing capacity in its factory at Indore, Madhya Pradesh and Guwahati, Assam in the past few years, which started giving results in FY2016 onwards. The company commenced commercial production in its second unit in Guwahati, Assam, in FY2016; this plant gets exemptions from both income taxes and indirect taxes such as excise duty and VAT.

The rating is, however, constrained by the vulnerability of the company's profitability to adverse movements in raw material prices. Further, while the diversification in product portfolio in the past few years has helped bring down the company's dependence on potato chips, the increase in prices of various raw materials (especially pulses and edible oil in the FY2017) is likely to keep the margins range-bound. The snack food business continues to face high competition from a large number of unorganised players and various well-entrenched players with strong brands, affecting the ability of the company to pass on any increase in raw material costs to its consumers.

Analytical approach: For arriving at the ratings, ICRA has taken into account the business risk profile of PSL, financial risk drivers and management profile

Links to applicable criteria
Rating Methodology for the Fast Moving Consumer Goods
(http://www.icra.in/Files/Articles/FMCG-Methodology%20-%20Final.pdf)

About the company:

PSL was promoted by Mr. Arvind Mehta, Mr. Apoorva Kumat and Mr. Amit Kumat. The promoter group has presence across diverse businesses such as snacks manufacturing, food processing, hire-purchase finance, construction and education. PSL became operational in January 2010, with the setting up of a manufacturing facility for potato chips. Subsequently, it diversified into 'Puffs' and other extruded snacks in FY2011. PSL also started new products such as 'Namkeens' and 'Rings' in order to diversify itself. In 2012, the business of a group company, the erstwhile Prakash Snacks Private Limited (Prakash) was purchased by PSL, leading to a significant increase in PSL's scale of operations. The company has received private equity investment of Rs. 129.0 crore from Sequoia Capital from FY2011 to FY2014, with Sequoia Capital currently holding a 49.76% equity stake in the company.

PSL registered an operating income (OI) of Rs. 757.2 crore and a profit after tax (PAT) of Rs. 24.9 crore in FY2016, as compared to an OI of Rs. 559.1 crore and a PAT of Rs. 3.9 crore in the previous year.

On a provisional basis, PSL registered an OI of Rs. 740 crore in the first ten months of FY2017 (from April'2016 to January'2017).

Status of non-cooperation with previous CRA: Not Applicable

Any other information: PSL has provided a corporate guarantee to the lenders of its wholly owned subsidiary i.e. Pure N Sure Food Bites Private Limited for the term loan taken by the later amounting to Rs. 30.00 crore. Our rating actions consider the corporate guarantee as contingent liability.

Rating History for last three years:

Table: Rating History

S.No	Name of Instrument	Current Rating			Chronology of Rating History for the past 3 years		
		Type	Rated amount (Rs. Crores)	Month-year & Rating	Month- year & Rating in FY2016	Month- year & Rating in FY2015	Month- year & Rating in FY2014
				April 2017	December 2015	October 2014	September 2013
1	Cash Credit	Long Term	16.00	[ICRA]A (Stable);	[ICRA]A- (Stable);	[ICRA]A- (Stable);	[ICRA]A- (Stable);
2	Term Loans	Long Term	42.00	[ICRA]A (Stable);	[ICRA] A- (Stable);	[ICRA] A- (Stable);	[ICRA] A- (Stable);

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1

Details of Instrument

Name of the instrument	Date of issuance	Coupon rate	Maturity Date	Size of the issue (Rs. Cr)*	Current Rating and Outlook
Cash Credit	2015	-	-	16.00	[ICRA]A(Stable)
Term Loan	2013	NA	2019	42.00	[ICRA]A(Stable)

Source: Prataap Snacks Limited

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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**

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