February 08, 2018

Prataap Snacks Limited

Summary of Rated Instruments

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

**Instrument details are provided in Annexure-1*

Rating action

ICRA has upgraded the long-term rating on the Rs. 58 crore bank facilities of Prataap Snacks Limited ("PSL" or "the company") to [ICRA]A+ (pronounced ICRA A plus) from its earlier rating of [ICRA]A (pronounced ICRA A)[1]. The outlook on the long-term rating is 'Stable'.

Detailed rationale

ICRA's rating upgrade takes into account PSL's topline growth of ~11% in 9MFY2018 backed by strong growth in sales volumes. The company's operating profit margins in 9MFY2018 increased to ~9% from ~5% for the same period, prior year. This translated into net cash accruals of Rs. 67 crore in 9MFY2018 compared to Rs. 31 crore in the corresponding period of previous year. The improvement in the company's profitability was due to benefits of operating leverage and was also aided by favourable raw material prices.

The company has been focusing on expanding its geographical reach with coverage in 27 states of India. The company has recently tied up with three contract manufacturers located in Ahmedabad, Bengaluru, and Kolkata with a view to strengthen its geographical coverage in the next couple of years. ICRA expects that the resultant growth in scale, along with healthy operating profit margins, and minimal outside borrowings will help in keeping the capital structure and debt protection indicators at a healthy level.

ICRA's rating also factors in the healthy liquidity in the company after its recent successful initial public offering (IPO) which resulted in inflows of Rs. 236 crore. The company has already prepaid most of its outside debt by December'2017, along with repayment of the term loan of its wholly owned subsidiary. Out of the total IPO proceeds of Rs. 236 crore, PSL has utilized Rs. 66 crore till December'2017.

However, ICRA's rating is constrained by the intense competition in the snacks and savoury industry, where the company competes with various well-entrenched players with strong brands as well as a large number of unorganized regional players. This affects the ability of the company to pass on any increase in raw material costs to its consumers.

Going forward, the company's ability to increase its scale of operations, diversify its product offerings and geographic reach will be the key rating sensitivities. The company's ability to sustain its margins will also be a key monitorable.

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

Outlook: Stable
The stable outlook reflects ICRA's expectation of consistent growth in PSL's topline along with sustained operating profit margins, leading to a comfortable credit profile. The outlook may be revised to positive if the company's topline and profitability increase at a pace higher than ICRA's estimates, along with comfortable debt protection indicators. Conversely if there is a sharp fall in the profit margins which adversely affect the credit profile, the outlook could be revised to negative.

Key rating drivers

Credit strengths

- Consistent growth in revenues backed by increase in production capacity through regular capex; healthy financial risk profile and capital structure
- Comfortable liquidity profile after the successful IPO, which coupled with improvement in profitability, has further strengthened the credit profile
- Experienced promoters with long presence in the food processing business
- Strong distribution network helps post high growth despite strong competition
- Strategic location of manufacturing facilities, with plants in Indore, Madhya Pradesh, a key hub for chip grade potato production in India, and Guwahati, Assam, which entitles it to fiscal benefits
- High capacity utilisation of manufacturing capacity of namkeen/extruded snacks

Credit weaknesses

- Exposure to raw material price fluctuations 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

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria
Corporate Credit Rating Methodology
Rating Methodology for Fast Moving Consumer Goods Industry

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 has added further diversity to its product portfolio with the introduction of new products such as 'Namkeens' and 'Rings'. 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 raised Rs. 236 crore through an IPO in September, 2017.

PSL registered an operating income (OI) of Rs. 903.92 crore and a profit after tax (PAT) of Rs. 10.45 crore in FY2017, as compared to an OI of Rs. 757.18 crore and a PAT of Rs. 24.87 crore in the previous year.

On a provisional basis, PSL registered an OI of Rs. 757.65 crore with PAT of Rs. 36.23 crore in 9MFY2018 compared to an OI of Rs. 681.81 crore with PAT of Rs. 9.86 crore in the corresponding period of previous year.

Key Financial Indicators-

	FY2016	FY2017	9MFY2017	9MFY2018
Operating Income (Rs. crore)	757.18	903.92	681.81	757.65
PAT (Rs. crore)	24.87	10.45	9.86	36.23
OPBDIT/ OI (%)	7.50%	4.53%	4.57%	8.88%
RoCE (%)	16.97%	6.69%	NA	NA
Total Debt/ TNW (times)	0.27	0.22	NA	NA
Total Debt/ OPBDIT (times)	0.96	1.31	NA	NA
Interest coverage (times)	9.66	9.13	NA	NA
NWC/ OI (%)	6%	6%	NA	NA

**PIL's FY2017 financials are provisional*
OI: Operating Income; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net-Worth + Deferred Tax Liability - Capital Work - in Progress);
NWC: Net Working Capital
(Source: Prataap Snacks Limited)

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 latter, amounting to Rs. 30 crore.

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)	Amount outstanding (Rs. Crore)*	Month-year & Rating in FY2018	Month-year & Rating in FY2017	Month-year & Rating in FY2016	Month-year & Rating in FY2015
					February 2018	March 2017	December 2015	October 2014
1	Cash Credit	Long Term	16.00	7.18	[ICRA]A+ (Stable)	[ICRA]A (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)
2	Term Loans	Long Term	42.00	26.91	[ICRA]A+ (Stable)	[ICRA]A (Stable)	[ICRA] A-(Stable)	[ICRA] A-(Stable)

*Outstanding on March 31, 2017 (out of the amount rated by ICRA)

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	~8-9%	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.

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