November 19, 2020

Prataap Snacks Limited: Rating reaffirmed

Summary of rated action

Instrument*	Previously Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term: Unallocated	58.00	58.00	[ICRA]A+ (Stable); reaffirmed
Total	**58.00**	**58.00**	

**Instrument details are provided in Annexure-1*

Rationale

The rating reaffirmation continues to take into account the well-diversified product portfolio of Prataap Snacks Limited (PSL), which includes a wide range of snacks, flavours and stock keeping units (SKUs) addressing a large consumer base. The rating also draws comfort from the integrated sales and distribution network with more than 240 super stockists and 4,100+ distributors, ensuring effective market penetration across India. ICRA favourably factors in the strategic location of PSL's manufacturing facilities across various parts of India, which has facilitated lowering logistics cost, de-risking from concentration in one facility, reducing transit time and improving serve rate. The rating also factors in the company's strong financial profile as evident from its low capital structure, healthy debt coverage indictors and robust liquidity and inherently low working capital intensity. Moreover, the rating continues to derive support from the experience of the promoters in the snack food industry.

During the current fiscal, PSL faced headwinds arising from the ongoing Covid-19 pandemic situation and the resultant halt in operations owing to the Government-mandated nationwide lockdown. The same is expected to result in moderation of revenues and profitability. Further, the margins are expected to face moderation with increase in input costs. ICRA also notes the intense competition in the snack business from large multinationals as well as regional players, which makes it challenging for the company to consistently expand its customer base and pass on the increase in raw material prices. The rating also considers the company's operations in the food industry, which exposes it to the risks pertaining to quality and reputation.

The Stable outlook reflects ICRA's expectation that PSL will continue to benefit from the experienced management team, diversified product portfolio designed as per the taste of Indian consumers and PSL's expanding geographical presence across India. Further, steady demand for packaged foods driven by increasing affordability, urbanisation, changing lifestyles/customer preferences, and favourable demographics, translate into low business risks for the company.

Key rating drivers and their description

Credit strengths

Strong capital structure, debt coverage indicators as well as robust liquidity profile – Healthy growth in PSL's OI over the years, coupled with healthy profitability metrics and the inherently low working capital intensity of the business, has led to healthy cash flow generation. The same has resulted in low gearing of 0.1 times and TOL/TNW of 0.5 times as on March 31, 2020. Also, its coverage metrics remain strong as reflected by total debt/OPBDITA of 0.8 times and interest coverage of 12.6 times for FY2020. In addition, PSL has a strong liquidity profile, characterised by sizeable cash and liquid investment balances and adequate undrawn working capital limits during the year.

Well-diversified product portfolio – PSL has a well-diversified product portfolio with over 60 products across four segments including a wide range of savoury and sweet food items, flavours and SKUs addressing a large consumer base.

Strategically located manufacturing facilities – PSL has manufacturing facilities spread across various parts of India, which has enabled it in (1) lowering logistics cost, (2) de-risking from concentration in one facility, (3) lowering transit time and (4) improving serve rate i.e., availability of products closer to delivery schedule.

Strong distribution network – PSL has a strong supply chain and pan-India integrated sales and distribution network of more than 240 super stockists and 4,100+ distributors ensuring effective market penetration.

Extensive experience of promoters – The promoters of the PSL have more than two decades of experience in the snack food industry and have extensive control on the day-to-day operations in the business.

Credit challenges

Moderation in revenues and profitability expected in FY2021 – The company's revenues and profitability are expected to remain under pressure in the current fiscal owing to disruption in operation faced by the company amid the nationwide lockdown due to Covid-19. Further, the margins are expected to face moderation with increase in input costs.

Volatility in margins associated with seasonality of raw materials – PSL's major raw material include refined palm oil, potatoes, rice, corn and gram with all being agricultural products. Dependency on monsoons and weather conditions, exposes the company's margins to fluctuations in raw material prices. The same has resulted in contraction of margins from 7.1% in FY2019 to 6.8% in FY2020.

Exposure to competition – PSL operates in the food industry, wherein it faces competition from large multinationals and local/regional players and in turn, is exposed pricing pressure. Further, with its entry into newer product segment and new markets, PSL remains exposed to increased competition. Failure to launch and market new products due to unpredictable consumer preferences might have a material adverse effect on business.

Quality risks – Being in the foods industry, PSL is exposed to brand reputation risks arising out of any consumer product liability claims. Also, product labelling errors could impact brand reputation.

Liquidity position: Strong

PSL's liquidity profile remains **strong** as reflected by sizeable cash and bank balances of more than Rs. 75 crore as on March 31, 2020, along with cushion in the fund based limits, which are sparsely utilised (Rs. 22.0-crore undrawn limits as on March 31, 2020). Further, healthy cash flow generation and inherently low working capital intensity of the business aid the liquidity position of the company.

Rating sensitivities

Positive triggers – The long-term rating could be upgraded if the company achieves a healthy growth in its scale of operations along with increased diversification across products and improvement in its profitability and return indicators on a sustained basis.

Negative triggers – The rating could be downgraded if a material decline in the company's revenues and profitability impacts its financial risk profile. Additionally, PSL's rating would be prone to a downgrade if it undertakes aggressive debt-funded capex or experiences a significant stretch in its working capital cycle, which weakens its liquidity profile.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Fast Moving Consumer Goods Industry
Parent/Group Support	Not applicable
Consolidation / Standalone	Consolidated

About the company

Prataap Snacks Limited (PSL), 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 *namkeen* (traditional Indian snacks) under the Yellow Diamond brand and sweet snacks under the Rich Feast brand. The company raised Rs. 236 crore through an IPO in September, 2017. In FY2019, it entered the Gujarat market through the acquisition of Avadh Snacks Private Limited. As on date, it operates through 14 manufacturing facilities, out of which five are company-owned and nine facilities are on a contract manufacturing basis.

Key financial indicators

	FY2019	FY2020	6M FY2021
Operating Income (Rs. crore)	1170.6	1393.8	522.4
PAT (Rs. crore)	44.6	46.9	2.5
OPBDITA/OI (%)	7.1%	6.8%	6.0%
PAT/OI (%)	3.8%	3.4%	0.5%
Total Outside Liabilities/Tangible Net Worth (times)	0.5	0.5	0.5
Total Debt/OPBDIT (times)	0.2	0.8	1.0
Interest Coverage (times)	97.0	12.6	9.5

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2021)				Rating History for the past 3 years			
		Type	Amount Rated	Amount Outstanding	Rating	FY2020	FY2019		FY2018
					19-Nov-2020	30-Aug-2019	12-Sep-2018	8-Feb-2018	11-Apr-2017
1	Unallocated	Long Term	58.00		[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	-	-	-
2	Cash Credit	Long Term	-		-	-	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A (Stable)
3	Term Loan	Long Term	-		-	-	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A (Stable)

Amount in Rs. crore

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: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Unallocated	-	-	-	58.00	[ICRA]A+ (Stable)

Source: PSL

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Prataap Snacks Limited	-	Full Consolidation
Avadh Snacks Private Limited	80.00%	Full Consolidation

ANALYST CONTACTS

K Ravichandran
+91 44 4596 4301
ravichandran@icraindia.com

Vipin Jindal
+0124-4545 355
vipin.jindal@icraindia.com

Manish Ballabh
+0124-4545 812
manish.ballabh@icraindia.com

Prerna Aggarwal
+0124-4545 891
prerna.aggarwal@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee
+91 80 4332 6401
jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries:

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

About ICRA Limited:

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ICRA Limited

Corporate Office
Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002
Tel: +91 124 4545300
Email: info@icraindia.com
Website: www.icra.in

Registered Office
1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001
Tel: +91 11 23357940-50

Branches

Mumbai	+ (91 22) 24331046/53/62/74/86/87
Chennai	+ (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,
Kolkata	+ (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,
Bangalore	+ (91 80) 2559 7401/4049
Ahmedabad	+ (91 79) 2658 4924/5049/2008
Hyderabad	+ (91 40) 2373 5061/7251
Pune	+ (91 20) 2556 0194/ 6606 9999