August 29, 2022

# Ramdev Food Products Private Limited: Ratings upgraded to [ICRA]A-(Stable)/[ICRA]A2+ from [ICRA]BBB+(Stable)/[ICRA]A2

## Summary of rating action

| Instrument* | Previous Rated Amount (Rs. crore) | Current Rated Amount (Rs. crore) | Rating Action |
|---|---|---|---|
| Fund-based cash credit | 70.66 | 80.66 | [ICRA]A-(Stable) upgraded from [ICRA]BBB+(Stable) |
| Fund-based term loan | 10.19 | 5.05 | [ICRA]A-(Stable) upgraded from [ICRA]BBB+(Stable) |
| Non-fund based limits | 16.52 | 3.02 | [ICRA]A2+; upgraded from [ICRA]A2 |
| Fund/Non fund-based limits-sublimit to cash credit | (66.50) | (66.50) | [ICRA]A-(Stable)/[ICRA]A2+ upgraded from [ICRA]BBB+(Stable)/[ICRA]A2 |
| Unallocated | - | 8.64 | [ICRA]A-(Stable)/[ICRA]A2+ upgraded from [ICRA]BBB+(Stable)/[ICRA]A2 |
| **Total** | **97.37** | **97.37** | |

**Instrument details are provided in Annexure-I*

## Rationale

The ratings upgrade considers a healthy improvement in Ramdev Food Products Pvt. Ltd.'s (Ramdev/company) business performance in FY2022 and ICRA's expectation that the trend is likely to continue going forward. In FY2022, the company's revenues grew by ~9%, which are expected to further grow by ~25-30% in FY2023, aided by a favourable demand outlook for spices and improvement in performance of the snacks division. While the offtake from the snacks division remained low in the past, the company has gradually ramped up its sales volumes with ~Rs. 85 crore sales in FY2022, which are expected to increase to ~Rs. 200 crore in FY2023. While Ramdev is an established player in the spices industry with a healthy market share, the offtake from its snacks division is still at an early stage. Nevertheless, ICRA notes the company's efforts to ramp up revenues from its snacks division, resulting in improved capacity utilisation level of ~55% in FY2022, compared to ~12% in FY2018. Geographical diversification to Rajasthan, Maharashtra etc. and addition of various contract manufacturing activities for third parties are expected to improve its asset utilisation rates in the near-to-medium term. The ratings are also supported by the company's healthy financial performance with low gearing and comfortable debt coverage indicators, as indicated by an interest cover of ~4.9 times in FY2022, which would remain healthy in the near-to-medium term. The major portion of the debt on the company's books is in the form of unsecured loans from promoters, which reduces reliance on external debt and supports the financial flexibility. The ratings reaffirmation continues to factor in the long experience of the promoters and the company's brand presence in the organised spice industry and its well-entrenched distribution network in western India.

The ratings, however, remain constrained by the geographical concentration of revenues in a single state at present and intense competition in the spice processing and packaged snacks industry, which limits the pricing flexibility. The ratings also factor in the susceptibility of the company's revenues and profitability to commodity price fluctuations, which are influenced by external factors such as agro-climatic conditions and adverse changes in Government policies. As the company is in the food business, any quality related issue could dent its brand image and remains a key risk.

The Stable outlook on the long-term rating indicates that Ramdev will continue to benefit from its established brand presence, wide distribution network and experienced promoters in the spices industry, especially in Gujarat.

## Key rating drivers and their description

### Credit strengths

**Healthy improvement in financial performance expected in FY2023 –** In FY2022, the company registered a healthy improvement in financial performance with a ~9% increase in its operating income (OI), aided by a growth in volumes as well as realisations. The operating margin also improved to ~9.5% in FY2022 from ~8.6% in FY2021 due to rationalisation of costs. This sales momentum is further likely to continue in FY2023. In FY2023, Ramdev is expected to achieve a revenue growth of

~20-25% on a YoY basis, supported by favourable demand outlook for its key products. While the snacks division had limited offtake in the past, increasing distribution network, along with addition of contract manufacturing activities will improve the financial performance of the snacks division in FY2023. Additionally, the operating margins are expected to remain healthy at ~9.5-10%.

**Extensive experience and track record of promoters in spices business; robust distribution network –** Established in 1965, the promoters of Ramdev have over 57 years of experience in the spices industry. It has an established market position in the organised spice business and enjoys a long relationship with its suppliers. Moreover, its well-entrenched distribution network (1,600 distributors) and brand recognition give it competitive advantages in the spice industry.

**Conservative capital structure with comfortable debt coverage indicators –** The capital structure of the company remained comfortable with a gearing of ~0.7 times in FY2022 (on a provisional basis). Out of its total debt of Rs. 112.6 crore as on March 31, 2022, unsecured loans from promoters comprised ~Rs. 70 crore. These loans do not have any fixed repayment schedule, which lends financial flexibility and supports the liquidity position of the company. The debt coverage indicators remained comfortable with an interest cover of ~4.9 times, DSCR of ~2.6 times and TD/OPBITDA of ~2.1 times in FY2022 (on a provisional basis). Going forward, with an improvement in profitability and cash flows, debt coverage indicators are expected to improve further.

## Credit challenges

**Exposure to geographical concentration risks –** Ramdev remains exposed to geographical concentration risks, with ~55-60% of its revenues coming from Gujarat in the past few years. However, ICRA notes that the company is working towards increasing its market share outside Gujarat in Rajasthan, Maharashtra and Madhya Pradesh through various sales and distribution efforts.

**Profitability remains vulnerable to commodity price fluctuations –** Ramdev's operations remain vulnerable to availability of agro-commodities and volatility in their prices, which are influenced by external factors like climatic conditions, demand-supply mismatch etc. Additionally, any adverse change in Government policies may impact the company's revenue and profitability.

**Intense competition and quality related risks –** The spice processing and the packaged snacks industries are very competitive and fragmented, given the low entry barriers and limited complexity of work involved. This restricts the company's pricing power and hence the profitability. In the snacks division, Ramdev is a relatively newer player and has witnessed lower-than-expected offtake since commencement of its operations. While it is an established player in the spices industry, it does not remain insulated to competition from other organised and unorganised players. Risks related to quality and reputation also remain high for players in the food industry.

## Liquidity position: Adequate

The liquidity position of the company remains adequate, supported by the undrawn working capital limits of ~75% against sanctioned limits. Healthy accruals from business, absence of major capex plans in the near-to-medium term and no fixed repayment schedule on the unsecured loans from the promoters provide additional comfort to the liquidity.

## Rating sensitivities

**Positive factors –** The ratings may be upgraded in case of a substantial increase in revenues and profitability, while maintaining its liquidity position and debt coverage metrics.

**Negative factors –**The ratings could be downgraded in case of lower-than-expected revenues and profit margins and/or if any large debt-funded capex leads to a deterioration in the debt metrics. An interest coverage below 4.0 times could also lead to ratings downgrade.

## Analytical approach

| Analytical Approach | Comments |
|---|---|
| **Applicable rating methodologies** | Corporate Credit Rating Methodology |
| **Parent/Group support** | Not Applicable |
| **Consolidation/Standalone** | Standalone financials are considered |

## About the company

Established in 1965, Ramdev Food Products Private Limited (Ramdev) manufactures spices, blended spices, instant mixes, snacks etc. at its facility at Changodar, Gujarat and packaged snacks at Chiyada, near Ahmedabad. It was promoted by Late Mr. Ram Patel and is now managed by Mr. Hasmukh Patel and his family members. The company has an established distribution network across India, with major presence in western India. It sells its products under the brands, Ramdev and Vedam.

In FY2022 (provisional financials), the company reported a net profit of Rs. 25 crore on an operating income (OI) of Rs. 561.2 crore compared to a net profit of Rs. 17.6 crore on an OI of Rs. 516.8 crore in FY2021.

### Key financial indicators (audited)

| Ramdev | FY2021 | FY2022 (Provisional) |
|---|---|---|
| **Operating income** | 516.8 | 561.2 |
| **PAT** | 17.6 | 25.0 |
| **OPBDIT/OI** | 8.6% | 9.5% |
| **PAT/OI** | 3.4% | 4.5% |
| **Total outside liabilities/Tangible net worth (times)** | 1.5 | 1.3 |
| **Total debt/OPBDIT (times)** | 2.4 | 2.1 |
| **Interest coverage (times)** | 4.3 | 4.9 |

*PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount 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 (FY2023) | | | | Chronology of rating history for the past 3 years | | |
|---|---|---|---|---|---|---|---|---|
| | | Type | Amount rated (Rs. crore) | Amount outstanding as of Mar 31, 2022 (Rs. crore) | Date & rating in FY2023 | Date & rating in FY2022 | Date & rating in FY2021 | Date & rating in FY2020 |
| | | | | | Aug 29, 2022 | Jul 05, 2021 | Sep 01, 2020 | Oct 09, 2019 |
| 1 | Cash Credit | Long term | 80.66 | 33.1 | **[ICRA]A- (Stable)** | [ICRA]BBB+ (Stable) | [ICRA]BBB+ (Negative) | [ICRA]BBB+ (Stable) |
| 2 | Term Loan | Long term | 5.05 | 9.3 | **[ICRA]A- (Stable)** | [ICRA]BBB+ (Stable) | [ICRA]BBB+ (Negative) | [ICRA]BBB+ (Stable) |
| 3 | Non fund-based limits | Short term | 3.02 | - | **[ICRA]A2+** | [ICRA]A2 | [ICRA]A2 | [ICRA]A2 |
| 4 | Fund/Non fund-based limits-sublimit to cash credit | Long/Short term | (66.50) | - | **[ICRA]A-(Stable)/[ICRA]A2+** | [ICRA]BBB+ (Stable)/[ICRA]A2 | [ICRA]BBB+ (Negative)/ [ICRA]A2 | [ICRA]BBB+ (Stable)/ [ICRA]A2 |
| 5 | Unallocated Limits | Long/Short term | 8.64 | - | **[ICRA]A-(Stable)/[ICRA]A2+** | - | - | [ICRA]BBB+ (Stable)/ [ICRA]A2 |

## Complexity level of the rated instruments

| Instrument | Complexity Indicator |
|---|---|
| Cash Credit | Simple |
| Term Loan | Simple |
| Non fund-based limits | Very Simple |
| Fund/Non fund-based limits- sublimit to cash credit | Simple |
| 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: [www.icra.in](http://www.icra.in)

## Annexure I: Instrument details

| ISIN | Instrument Name | Date of Issuance | Coupon Rate | Maturity | Amount Rated (Rs. crore) | Current Rating and Outlook |
|---|---|---|---|---|---|---|
| NA | Cash Credit | - | - | - | 80.66 | [ICRA]A- (Stable) |
| NA | Term Loan | FY2017 | | FY2024 | 5.05 | [ICRA]A- (Stable) |
| NA | Non fund-based limits | - | - | - | 3.02 | [ICRA]A2+ |
| NA | Fund/Non fund-based limits-sublimit to cash credit | - | - | - | (66.50) | [ICRA]A-(Stable)/[ICRA]A2+ |
| NA | Unallocated | | | | 8.64 | [ICRA]A-(Stable)/[ICRA]A2+ |

*Source: Company*

*Please click here to view details of lender-wise facilities rated by ICRA*

### Annexure II: List of entities considered for consolidated analysis

*NA*

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