

February 28, 2024

## Poona Dal and Besan Mills Private Limited: Ratings reaffirmed; rated amount enhanced

### Summary of rating action

| Instrument*                          | Previous Rated Amount<br>(Rs. crore) | Current Rated Amount<br>(Rs. crore) | Rating Action  |
|--------------------------------------|--------------------------------------|-------------------------------------|--|
| Long-term – Fund based – Cash Credit | 16.35                                | 25.00                               | [ICRA]BBB+ (Stable); reaffirmed and assigned for the enhanced amount |
| Short-term – Non-fund based – Others | 95.75                                | 130.00                              | [ICRA]A2; reaffirmed and assigned for the enhanced amount            |
| Long-term – Fund based – Term Loan   | 0.00                                 | 10.00                               | [ICRA]BBB+ (Stable); assigned  |
| <b>Total</b>                         | <b>112.10</b>                        | <b>165.00</b>                       |  |

\*Instrument details are provided in Annexure-1

### Rationale

While arriving at the ratings, ICRA has taken a consolidated view of the credit profiles of the two entities in the Poona Dal Group (referred to as the Group), namely Poona Dal and Besan Mills Private Limited (PDBM) and Poona Dal and Oil Industries Limited (PDOIL) (please refer to the Analytical approach section for details).

The ratings continue to factor in the Group's established presence for over three decades in the agro-processing, food grains and edible oil industries. ICRA notes the Group's experienced management and its sizeable scale of operations in a fragmented and unorganised sector. The Group has a strong distribution network, centralised procurement system and established brands in the local market. The products have favourable demand prospects as foodgrains are essential constituents of the staple Indian diet. The Group's financial profile remains stable with comfortable capital structure, along with a strong liquidity position though the coverage indicators have been impacted to some extent due to an increase in interest costs in FY2023. ICRA estimates that the decline in revenue and profitability in the edible oil business will be compensated to a large extent by the addition of wheat flour business in FY2024 and future years. ICRA believes that sizeable surplus maintained by the Group would continue to support its comfortable debt coverage metrics and strong liquidity position. Going forward, further addition in the share of value-added products, an improvement in the operating performance and margins, along with adequate management of the working capital will remain key rating sensitivities.

The ratings remain constrained by the Group's weak operating performance, characterised by thin profit margins and low cash accruals. Given the limited value addition in the business and intense competition in the food segment, the profitability of the Group is likely to remain range bound, though the Group's revenue is likely to remain at similar levels. The operating income of the Group fell by 17% on a YoY basis in FY2023 mainly due to a decline in sales volume and realisation of edible oil. Also, in FY2023, the Group reduced its trading operations, considering the high price volatility in the market. Further, to reduce dependence on imports, the Group has increased procurement from NAFED, which provides pulses at affordable prices and desired quality. The Group is exposed to the Government's policy actions, which may impact its business and profitability, as witnessed in the past related to import duty on chickpeas/edible oil and GST on branded products. Further, the Group is exposed to challenges related to logistics, so any adversity in the same could impact its business and profitability. ICRA also notes the company's susceptibility to agro-climatic conditions, the commodity price cycle and currency movements. As the Group is present in the food industry, its quality and reputation related risks are high, which could impact the Group's pricing strength and business.

The Stable outlook on the [ICRA]BBB+ rating reflects ICRA's opinion that the Group is likely to sustain its operating metrics even as its revenue growth may moderate. Further, the outlook underlines ICRA's expectation that the Group's incremental

capex, if any, to further expand the capacity or increased working capital requirements, will be funded in a manner that it is able to durably maintain its debt protection metrics commensurate with the existing rating.

## Key rating drivers and their description

### Credit strengths

**Group's established presence with experienced management** – PDBM is the flagship company of the Poona Dal Group, which processes and trades in pulses and other foodgrains. Its other Group entity, PDOIL, is involved in processing of edible oils, apart from trading in pulses. The Group has an established presence of more than three decades in the agro and foodgrains industry with an experienced management. It is one of the large traders and processors of pulses in the region and is functioning in a highly fragmented and unorganised market. The Group has also added wheat flour to its business, which is likely to diversify its product and revenue base.

**Comfortable capital structure, moderate debt coverage metrics and healthy liquidity** – The Group's coverage metrics remained at moderate levels in FY2023, as reflected by an interest coverage of 2.8 times (3.6 times in FY2022) and DSCR of 3.0 times (4.2 times in FY2022), though under some pressure, due to a significant increase in interest costs during the year. Nevertheless, ICRA expects an improvement in debt protection metrics, supported by higher profitability over the medium term on the back of optimum utilisation of wheat milling plants, moderation in raw material prices and relatively lower interest cost. The Group primarily uses non-fund-based facilities for procuring pulses, which result in limited utilisation of its working capital limits. The overall utilisation of the limit remains low on account of sizeable cash and bank balances maintained by the Group. While the Group has recently commissioned a new wheat flour mill, which is funded by a fresh term loan, its capital structure remains comfortable with a gearing of 0.2 times as on March 31, 2024.

**Stable demand from staple foodgrains market, strong distribution reach and established local brand** – The Group's market is extremely fragmented. However, the demand is stable as its products form staple constituents of daily diet. The Group has developed a strong marketing and distribution network in its catchment area. The raw materials procurement, both from domestic and overseas (pulses and edible oil) markets, are done centrally. As the companies cater to retailers, dealers and wholesale agents, the customer concentration remains low with no customer contributing more than 5% to the overall sales in each company.

### Credit challenges

**Thin profit margins inherent to the industry** – The Group operates in a commoditised and hence, extremely elastic market, making it a price taker. The low value-added nature of its business, combined with the fragmented and unorganised market, result in low operating profit margins in the range of 1-2%. The price realisations of oil have reduced significantly and hence the company now refines oil on a weekly basis depending on demand. Consequently, it is able to sustain price fluctuations and maintain moderate profit levels. Though the Group has witnessed a drop in revenues, the sales realisation of most of the items (except for edible oil) remained elevated in FY2023. Consequently, the Group's operating margin increased to 1.6% in FY2023 from 1.0% in FY2022. While the revenue and profitability from edible oil business will remain under pressure in FY2024, the recently commissioned wheat flour mill will compensate the decline to a large extent. As a result, the Group is likely to register stable revenue and profitability in FY2024, as per ICRA estimates.

**Government policy and agro-climatic conditions adversely impact operating performance** – The Group deals in foodgrains and edible oil that are essential constituents of the Indian diet and are regulated by the Government on a continuous basis. The products come under the Essential Commodities Act, wherein the parameters, such as stocking and price levels, are tightly controlled. The company's trading operations depend on imports owing to price arbitrage opportunity against domestic procurement. The Group is also exposed to challenges related to logistics, so any adversity in the same could impact its business and profitability.

**Exposure to commodity price cycles and currency movements** – The Group's operations are exposed to commodity price cycles and currency movements. However, the management's extensive experience and 100% hedging practice (in case of international business) mitigate the risk to some extent.

**Exposure to quality-related risks** – As the Group is present in the food industry, its quality and reputation related risks are high, which could impact the Group's pricing strength and business.

### Liquidity position: Strong

Poona Dal Group's liquidity is strong, with minimal long-term debt repayment obligations, unutilised credit limits and healthy cash and cash equivalents (~Rs. 113.1 crore as on March 31, 2023) maintained by the Group. It utilised 30% of the credit limit on an average in FY2023. While the Group's cash flow position remains impacted by the thin margins, low cash accruals and changes in the working capital intensity, it is likely to generate more than Rs. 6.0-crore net cash accruals in the future years. The Group's flagship company, Poona Dal and Besan Mills Private Limited (PDBM), incurred a capex of ~Rs. 18.0 crore for a wheat flour unit with an installed capacity of 500 MT/day. The Group does not have any other major capex plan in the near term. ICRA believes that any stretch in the working capital cycle and a deterioration in its liquidity would adversely impact the company's financial risk profile.

### Rating sensitivities

**Positive factors** – ICRA could upgrade the Group's ratings if its profitability improves significantly while maintaining a steady revenue growth and comfortable liquidity position, on a sustained basis.

**Negative factors** – Pressure on the Group's ratings could arise if there is a sharp decline in its revenues and profitability along with a deterioration in its liquidity position on a sustained basis. Specific credit metrics, which could result in ratings downgrade, include an interest coverage below 3.5 times on a sustained basis.

### Analytical approach

| Analytical Approach             | Comments  |
|---------------------------------|---|
| Applicable Rating Methodologies | <a href="#">Corporate Credit Rating Methodology</a>   |
| Parent/Group Support            | Not applicable  |
| Consolidation/Standalone        | For arriving at the ratings, ICRA has consolidated the financials of the two entities in the Poona Dal Group (details as mentioned in Annexure II), given the strong operational, financial and managerial linkages between these entities. |

### About the Group

Owned by Pune-based Mr. Sunil Parakh and his family, the Poona Dal Group comprises Poona Dal and Besan Mills Private Limited (PDBM) and Poona Dal and Oil Industries Limited (PDOIL). Mr. Parakh, along with his family members, holds a 100% equity stake in PDBM. PDOIL, which is listed on BSE, is also majorly (70.38%) held by Mr. Parakh along with his family, while the remaining stake is held by other individuals and corporates. PDBM mainly processes pulses and gram flour, while PDOIL is involved in processing of pulses and edible oil.

### About the company

PDBM, the flagship company of the Poona Dal Group, was established by Mr. Deepchand Parakh and his brother, Mr. Jalamchand Parakh, in 1985. PDBM processes and trades in pulses, foodgrains, and gram flour (besan and wheat). It has production units at Hadapsar and Shikrapur near Pune, Maharashtra. Along with PDOIL, PDBM has a widespread marketing network across Maharashtra, Karnataka and Goa.

## Key financial indicators

| Poona Dal and Besan Mills Private Limited            | Consolidated (Group) |        | Standalone |        |
|--|----------------------|--------|------------|--------|
|  | FY2022               | FY2023 | FY2022     | FY2023 |
| Operating Income (Rs. crore)                         | 528.2                | 438.9  | 339.8      | 290.2  |
| PAT (Rs. crore)                                      | 4.9                  | 4.7    | 3.5        | 3.6    |
| OPBDIT/OI (%)  | 1.0%                 | 1.6%   | 1.1%       | 1.8%   |
| PAT/OI (%)   | 0.9%                 | 1.1%   | 1.0%       | 1.2%   |
| Total Outside Liabilities/Tangible Net Worth (times) | 0.3                  | 0.2    | 0.5        | 0.3    |
| Total Debt/OPBDITA (times)                           | 1.4                  | 1.9    | 2.0        | 2.0    |
| Interest Coverage (times)                            | 3.6                  | 2.8    | 3.0        | 2.5    |

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

## Status of non-cooperation with previous CRA: Not applicable

## Any other information: None

## Rating history for past three years

| Instrument                 | Type       | Current Rating (FY2024)  |   | Chronology of Rating History for the past 3 years |                         |                         |                         |
|----------------------------|------------|--------------------------|---|---|-------------------------|-------------------------|-------------------------|
|                            |            | Amount Rated (Rs. crore) | Amount Outstanding as on January 31, 2024 (Rs. crore) | Date & rating in FY2024                           | Date & rating in FY2023 | Date & rating in FY2022 | Date & rating in FY2021 |
|                            |            |                          |   | Feb 28, 2024                                      | Dec 29, 2022            | Sep 30, 2021            | Apr 24, 2020            |
| 1 Fund based – Cash Credit | Long-term  | 25.00                    | --  | [ICRA]BBB+ (Stable)                               | [ICRA]BBB+ (Stable)     | [ICRA]BBB+ (Stable)     | [ICRA]BBB+ (Stable)     |
| 2 Non-fund based – Others  | Short-term | 130.00                   | --  | [ICRA]A2  | [ICRA]A2                | [ICRA]A2                | [ICRA]A2                |
| 3 Fund based – Term Loan   | Long-term  | 10.00                    | 10.00   | [ICRA]BBB+ (Stable)                               | -                       | -                       | -                       |

## Complexity level of the rated instrument

| Instrument                           | Complexity Indicator |
|--------------------------------------|----------------------|
| Long-term – Fund based – Cash Credit | Simple               |
| Short-term – Non-fund based – Others | Simple               |
| Long-term – Fund based – Term Loan   | Simple               |

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 analyzing 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, is available on ICRA's website: [Click here](#)

#### Annexure-1: Instrument details

| ISIN | Instrument Name                      | Date of Issuance / Sanction | Coupon Rate | Maturity Date | Amount Rated (Rs. crore) | Current Rating and Outlook |
|------|--------------------------------------|-----------------------------|-------------|---------------|--------------------------|----------------------------|
| NA   | Long-term – Fund based – Cash Credit | NA                          | 9.25%       | NA            | 25.00                    | [ICRA]BBB+ (Stable)        |
| NA   | Short-term – Non-fund based – Others | NA                          | NA          | NA            | 130.00                   | [ICRA]A2                   |
| NA   | Long-term – Fund based – Term Loan   | FY2024                      | 9.75%       | FY20230       | 10.00                    | [ICRA]BBB+ (Stable)        |

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

#### Annexure-2: List of entities considered for consolidated analysis:

| Instrument Name                           | Ownership | Current Rating and Outlook |
|---|-----------|----------------------------|
| Poona Dal and Besan Mills Private Limited | 100.00%   | Full Consolidation         |
| Poona Dal and Oil Industries Limited      | 100.00%   | Full Consolidation         |

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