June 28, 2024

Prataap Snacks Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Cash Credit	80.00	50.00	[ICRA]A+(Stable); Reaffirmed
Long-term – Unallocated	20.00	50.00	[ICRA]A+(Stable); Reaffirmed
Total	**100.00**	**100.00**	

**Instrument details are provided in Annexure-I*

Rationale

The rating reaffirmation considers ICRA's opinion that the credit profile of Prataap Snacks Limited (PSL) will remain healthy in the near to medium term driven by its expanding geographic presence and enhancing product portfolio. The top line is expected to witness range-bound growth with a satisfactory operating profit margin (OPM) in FY2025, from a relatively stable raw material prices (mainly edible oil and laminates) and the company's ongoing thrust on cost optimisation. For FY2024, PSL reported an operating income of Rs. 1,618 crore with operating and net margins of 8.8% and 3.8%, respectively. The company has an integrated sales and distribution network ensuring effective market penetration across India. PSL's owned manufacturing facilities, including its contract manufacturing facilities, are strategically located across India, facilitating lower logistics cost, de-risking from concentrating on a single facility, reducing transit time and improving services. The rating also factors in the company's limited dependence on bank debt supported by an inherently low working capital intensity in the business. The rating continues to derive support from the experience of the promoters in the snack food industry, the company's diversified product portfolio and brand presence across most states and Union Territories (UTs) in India. The coverage metrics have remained comfortable, reflected by total debt/OPBDITA of 0.6 times and interest coverage of 24.7 times in FY2024.

However, the rating is constrained by the vulnerability of earnings to any adverse movements in raw material prices, which in turn are linked to agro-climatic conditions. The impact of margin volatility was evident during FY2022 and FY2023, when PSL reported a lower OPM (~4%) due to a sharp increase in input costs, mainly edible oil and laminates. PSL is also exposed to the intense competition in the snacks business from large multinationals as well as regional players. Being present in the small-sized pack segment, which generally follows impulse buying behaviour, it remains an ongoing challenge for the company to pass on the increase in raw material prices amid the intense competition. The company's return indicators have been historically moderate owing to a large acquisition in the past, coupled with substantial capex on capacity enhancement, although returns from the same are yet to reach optimum levels.

The Stable outlook reflects ICRA's expectations of PSL's credit profile continuing to benefit from its diversified product portfolio and expanding presence across India. Absence of any debt-funded capex plans and ample utilised capacity, coupled with healthy liquidity levels are also likely to support the credit profile, going forward.

Key rating drivers and their description

Credit strengths

Extensive experience of promoters in FMCG industry – The promoters of PSL have more than two decades of experience in the snack food industry and manage the day-to-day operations of the business. PSL commenced operations in trading snack foods from 2003 and, subsequently, began its manufacturing operations from 2005. Over the years, PSL has been expanding its product portfolio and increasing its presence across the country under the leadership of its Chairman, Mr. Arvind Mehta, and Managing Director, Mr. Amit Kumat.

Strong distribution network and strategically located manufacturing facilities – PSL has a strong supply chain and integrated network of more than 5,000 distributor and sub-distributors ensuring effective market penetration. The company has also realigned most of its network to a two-layer distribution model from a three-layer one to optimise distribution costs. PSL's pan-India manufacturing facilities have enabled it in lowering logistics cost, de-risking from concentrating on a single facility, reducing transit time and improving its services, i.e., availability of products closer to the delivery schedule. The company has eight owned manufacturing units and seven contract manufacturing units, which are well placed to serve key target markets. PSL has recently started commercial production from its Jammu manufacturing plant and has spent substantial capex in enhancing the production capacity at Rajkot with a new manufacturing plant (Unit 2).

Well-diversified product portfolio – PSL has a well-diversified product portfolio with over 150 stock keeping units (SKUs) across four segments, including a wide range of savoury and sweet food products and flavours addressing a large consumer base. The company's snacks category offers potato chips, extruded snacks, pellets, savoury (*namkeen*) and sweet snacks. It sells its products under two brands, Yellow Diamond and Avadh.

Comfortable debt coverage and adequate liquidity position – PSL's modest working capital intensity in business and low reliance on external debt have resulted in gearing of 0.1 times and TOL/TNW of 0.4 times as on March 31, 2024. The coverage metrics have remained comfortable, reflected in total debt/OPBDITA of 0.6 times and interest coverage of 24.7 times in FY2024. In FY2024, PSL did not contract any sizeable external debt, other than Rs. 20 crore of term debt taken for the Jammu manufacturing plant, which has benefits of interest rate subvention. Going forward, coverage indicators and liquidity are likely to remain comfortable due to low reliance on bank debt and healthy cash generation from business. In addition, PSL has an adequate liquidity profile, characterised by sizeable cash and liquid investments, and adequate undrawn working capital limits.

Credit challenges

Volatility in margins associated with seasonality of agro-based raw materials – PSL's major raw materials are all agricultural products and include edible oil (refined palm oil), potatoes, rice, corn and gram. Dependency on the monsoons and weather conditions, exposes the company's margins to fluctuations in raw material prices. The impact of adverse movement of input cost was severe on margins during FY2022 and FY2023, when PSL reported a lower OPM due to a sharp rise in input costs, mainly edible oil and laminates.

Moderate return indicators amid sub-optimal capacity utilisation levels – PSL has invested Rs. 650-700 crore over FY2019-FY2024 for acquisitions, new manufacturing units, construction of warehouses and expansion of its existing manufacturing facilities. However, returns from the same are yet to reach its optimum level, and not in commensurate with the invested amount.

Competition from organised and unorganised players – PSL operates in the food industry, where it faces competition from large multinationals as well as local/regional players and, in turn, is exposed to pricing pressure. Having a moderate brand presence and operating in the small-sized pack segment, which consumers typically buy on an impulse, it is challenging for the company to pass on the increase in raw material prices amid the intense competition.

Environmental and Social Risks

Environmental considerations: FMCG companies remain exposed to the impact of changes in environmental norms with respect to the treatment of manufacturing residual discharge/waste. Accordingly, PSL could face operational disruptions if regulatory norms are not complied with. Further, with increasing awareness and restrictions on usage of different grades of plastics for packaging and finding environment-friendly solutions, PSL's cost structure may be impacted. Even as there is an increasing focus on carbon neutrality, the likelihood of sudden impactful developments on this front for the FMCG industry remains low. There is also a trend towards using organically grown input materials. Such developments can potentially increase costs for FMCG companies. Since PSL has a healthy dependence on agri commodities, it remains exposed to agro-climatic risks, which could result in variations in crop output/prices. Overall, entities in the FMCG industry have a low exposure to environmental risks, buttressed further by their better pricing power as reflected in their ability to pass along the increase in costs over time.

Social considerations: On the social dimension, the FMCG sector has a prominent dependence on human capital, in terms of direct and indirect employees as well as contractual labour. Being an interplay of manufacturing and services business, maintaining healthy employee relations and retaining talent as well as its supplier ecosystem is essential for disruption-free operations. Also, there could be quality concerns that FMCG entities like PSL could face, which could adversely impact their brands, or risks that an entire product category could face out of social considerations pertaining to health concerns. While these risks are product category-specific, the overall exposure of the FMCG sector to social risks remains low to moderate.

Liquidity position: Adequate

PSL's liquidity profile is adequate, supported by free cash and bank balances of about Rs. 115 crore as of March 2024 along with cushion in fund-based limits, which have been sparsely utilised (Rs. 50.0-crore undrawn limits as of May 2024). Further, healthy cash flow generation and inherently low working capital intensity of the business, aids the company's liquidity position. The company's cash accrual generation and available working capital limit will be adequate to address its moderate repayment obligations and working capital requirements.

Rating sensitivities

Positive factors – The rating could be upgraded, if the company achieved sustained growth in revenues, increased diversification across products, and improvement in its return indicators, while maintaining a comfortable liquidity and credit profile on a sustained basis.

Negative factors – The rating could be downgraded, if there is any material decline in the company's revenues and profitability. Additionally, PSL's rating would be prone to a downgrade if it undertakes any aggressive debt-funded capex or experiences a significant stretch in its working capital cycle, which weakens its credit or liquidity profile. In terms of specific credit metrics, OPM less than 4% and total debt/OPBDITA more than 1.5 times, on a sustained basis, would be a negative rating trigger.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Fast Moving Consumer Goods Industry
Parent/Group support	Not applicable
Consolidation/Standalone	For arriving at the rating, ICRA has considered the standalone financials statement of PSL as Avadh Snacks Private Limited (Avadh) merged into PSL in FY2024.

About the company

Prataap Snacks Limited, promoted by Mr. Arvind Mehta, Mr. Apoorva Kumat and Mr. Amit Kumat, is an Indian snack food company engaged in manufacturing and marketing multiple product variants across potato chips, extruded snacks, traditional Indian savouries (*namkeen*) and sweets snacks under the Yellow Diamond brand. In FY2019, it entered the Gujarat market through the acquisition of Avadh Snacks Private Limited. As on date, it operates through 15 manufacturing facilities, of which eight are company owned and seven are on a contract manufacturing basis. At present, the private equity player, the Sequoia Group, holds a 47.5% stake in the company. PSL's shares are listed on the BSE and the NSE.

Key financial indicators (audited)

PSL	FY2023*	FY2024**
Operating income	1652.9	1617.9
PAT	20.3	53.1
OPBDIT/OI	4.0%	8.8%
PAT/OI	1.2%	3.3%
Total outside liabilities/Tangible net worth (times)	0.3	0.4
Total debt/OPBDIT (times)	0.9	0.6
Interest coverage (times)	10.2	24.7

*Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. Crore; *consolidated of PSL and Avadh, ** Limited audited result, standalone of PSL as Avadh merged into PSL in FY2024*
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	Current rating (FY2025)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2022	Date & rating in FY2021
					Jun 28, 2024	Apr 26, 2023	Jan 31, 2022	Nov 19, 2020
1	**Cash Credit**	Long term	50.0	--	**[ICRA]A+ (Stable)**	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	-
2	**Unallocated**	Long term	50.0	--	**[ICRA]A+ (Stable)**	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term Fund-based – Cash Credit	Simple
Long Term-Unallocated	Not Applicable

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: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Cash Credit**	NA	NA	NA	50.0	[ICRA]A+ (Stable)
NA	**Unallocated**	NA	NA	NA	50.0	[ICRA]A+ (Stable)

Source: Company

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

Annexure II: List of entities considered for consolidated analysis – Not applicable

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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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