

September 01, 2020

## Ramdev Food Products Private Limited: Ratings reaffirmed; outlook on long-term rating revised to Negative from Stable

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based Cash Credit	70.66	70.66	[ICRA]BBB+; Reaffirmed and outlook revised to Negative from Stable
Fund-based Term Loan	33.47	16.84	[ICRA]BBB+; Reaffirmed and outlook revised to Negative from Stable
Non-fund based limits	1.52	16.52	[ICRA]A2; Reaffirmed
Fund-based/Non-fund based limits- sublimit to cash credit	(75.00)	(66.50)	[ICRA]BBB+/A2; Reaffirmed and outlook revised to Negative from Stable
Unallocated Limits	25.68	0.00	-
<b>Total</b>	<b>131.33</b>	<b>104.02</b>	

\*Instrument details are provided in Annexure-1

### Rationale

The revision in outlook on the long-term rating considers the reduction in operating profit margin and net losses incurred by Ramdev Food Products Private Limited (Ramdev) in FY2020, leading to significant decline in cash accruals and moderation in the debt protection metrics. ICRA, however, notes that the company's unsecured loans have increased to Rs. 70.9 crore in FY2020-end from Rs. 47.3 crore in FY2019-end, which supports its liquidity and provides comfort.

The ratings continue to favourably consider the extensive experience of the promoters and the company's brand presence in the organised spice industry and its well-entrenched distribution network in India. The ratings factor in its comfortable gearing level and adequate liquidity position, supported by cushion in the working capital limits. Further, the capex undertaken for the snacks division is entitled to various fiscal incentives, which supports the profitability.

The ratings, however, remain constrained by lower-than-expected scale up in the snacks division and the intense competition in the spice processing and packaged snacks industry, which limits the pricing flexibility. The ratings 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. Further, it remains exposed to quality-related risk as prevalent in the food business.

### Key rating drivers and their description

#### Credit strengths

**Extensive experience and track record of promoters in spice business; robust distribution network** – Established in 1965, the company's promoters have five-decade long experience in the spice industry. It has an established market position in the organised spice business and it enjoys a long-standing relationship with its suppliers. Moreover, its well-entrenched distribution network (1,400 distributors) and brand recognition are competitive advantages in the spice industry.

**Comfortable capital structure with majority of debt being unsecured loans from promoters** – The company's total debt stood at Rs. 98.4 crore as on March 31, 2020 compared to Rs. 100.8 crore as on March 31, 2019. This, along with its

healthy net worth (Rs. 104.3 crore) position, led to a comfortable capital structure with a gearing of 0.9 times as on FY2020-end. Further, the unsecured loans from promoters, which were at Rs. 47.3 crore as on March 31, 2019 (47% of the total debt), have increased to Rs. 70.9 crore by March 31, 2020-end (72% of the total debt) providing flexibility.

**Availability of various fiscal benefits** – Ramdev’s snacks plant is eligible for various fiscal incentives from the Central Government and the state government, which is an added benefit and supports its profitability.

## Credit challenges

**Moderation in operating profitability leading to net loss in FY2020 and moderation in coverage indicators** – The company’s operating margins declined to 5.8% in FY2020 vis-à-vis 10.9% in FY2019, thereby leading to a net loss of Rs. 0.69 crore in FY2020. This was primarily on account of high advertisement expense to boost brand, additional sales quantum offered in the snacks division to push sales and higher trading revenues, along with one-time gratuity payment to the Chairman. Some of these were one-time expenses and consequently, the profitability is expected to rebound to some extent in the current fiscal, as evident from a net profit of Rs. 4.6 crore (provisional unaudited) in Q1 FY2021. The reduction in profitability significantly impacted the cash accruals in FY2020, apart from the coverage indicators, which moderated as evident from interest coverage of 1.9 times in FY2020 (vis-a-vis 3.9 times in FY2019), TOL/TNW of 1.5 times in FY2020 (vis-a-vis 1.4 times in FY2019), DSCR of 0.7 times in FY2020 (vis-à-vis 1.0 times in FY2019) and NCA/TD of 11% for FY2020 (vis-a-vis 24% in FY2019).

**Profitability vulnerable to commodity price fluctuations** – Ramdev’s operations remain vulnerable to the availability of agro-commodities and volatility in their prices, which are influenced by external factors such as 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 highly competitive and fragmented, given the low entry barriers and the limited complexity of work involved. This restricts the company’s pricing power and profitability. In the snacks division, Ramdev is a relatively new player and has witnessed lower-than-expected offtake since the commencement of its operations. While it is an established player in the spice industry, it does not remain insulated to competition from other organised and unorganised players. Moreover, it remains exposed to risks regarding quality and reputation as prevalent in the food industry.

## Liquidity position: Adequate

The company’s liquidity position remains **adequate**, due to significant increase in unsecured loans from promoters worth Rs. 70.93 crore (72% of the total debt) as on March 31, 2020. This supports the liquidity, even though the cash accruals may remain tightly matched to the debt repayments. Further, the undrawn working capital limits and absence of any major capex also support its liquidity.

## Rating sensitivities

**Positive triggers** – The outlook may be revised to Stable with revival in the profitability and cash flows leading to an improvement in the coverage indicators.

**Negative triggers** – The rating may be downgraded if decline in profitability and/or any major debt-funded capex leads to further deterioration in the debt coverage indicators and weakens the company’s liquidity.

## Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">Corporate Credit Rating Methodology</a>
Parent/Group Support	Not applicable
Consolidation/Standalone	The ratings are based on the standalone financial statement of the issuer.

## About the company

Established in 1965, Ramdev manufactures spices, blended spices, instant mixes, snacks, etc, at its facility in Changodar, Gujarat and packaged snacks at its facility at Chiyada, near Ahmedabad, in Gujarat. It is promoted by the Late Mr. Ram Patel and is managed by Mr. Hasmukh Patel and his family. The company has a well-established distribution network across India, with major presence in western India. It sells its products under the brand Ramdev and Vedam.

In FY2020 (provisional financials), the company reported a net loss of Rs. 0.7 crore on an operating income (OI) of Rs. 411.4 crore, compared to a net profit of Rs. 11.2 crore on an OI of Rs. 364.2 crore in FY2019. In Q1 FY2021 (provisional financials), it reported a net profit of Rs. 4.5 crore on an OI of Rs. 86.5 crore.

## Key financial indicators (audited)

	FY2019	FY2020 (P)
Operating Income (Rs. crore)	364.2	411.4
PAT (Rs. crore)	11.2	-0.7
OPBDIT/OI (%)	10.9%	5.8%
RoCE (%)	12.2%	5.7%
Total Outside Liabilities/Tangible Net Worth (times)	1.4	1.5
Total Debt/OPBDIT (times)	2.5	4.1
Interest Coverage (times)	3.9	2.1
DSCR	1.0	0.7

(P)- Provisional

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

**Any other information: None**

### Rating history for past three years

	Instrument	Current Rating (FY2020)			Rating History for the Past 3 Years			
		Type	Amount Rated	Amount Outstanding	Rating	FY2020	FY2019	FY2018
					1-Sep-2020	9-Oct-2019	27-Jul-2018	-
1	Cash Credit	Long term	70.66	NA	[ICRA]BBB+ (Negative)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	-
2	Term Loan	Long term	16.84	NA	[ICRA]BBB+ (Negative)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	-
3	Non-fund based limits	Short term	16.52	NA	[ICRA]A2	[ICRA]A2	[ICRA]A2	-
4	Fund-based/Non-fund based limits – sublimit to cash credit	Long/Short term	(66.50)	NA	[ICRA]BBB+ (Negative)/A2	[ICRA]BBB+ (Stable)/A2	[ICRA]BBB+ (Stable)/A2	-
5	Unallocated Limits	Long/Short term	0.00	NA	-	[ICRA]BBB+ (Stable)/A2	[ICRA]BBB+ (Stable)/A2	-

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](http://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	Cash Credit	NA	NA	NA	70.66	[ICRA]BBB+(Negative)
NA	Term Loan	FY2018	NA	FY2024	6.30	[ICRA]BBB+(Negative)
NA	Term Loan	FY2017	NA	FY2021	3.25	[ICRA]BBB+(Negative)
NA	Term Loan	FY2017	NA	FY2022	2.25	[ICRA]BBB+(Negative)
NA	Term Loan	FY2018	NA	FY2022	1.94	[ICRA]BBB+(Negative)
NA	Term Loan	FY2020	NA	FY2023	1.75	[ICRA]BBB+(Negative)
NA	Term Loan	FY2020	NA	FY2023	1.35	[ICRA]BBB+(Negative)
NA	Short term Non-fund	NA	NA	NA	16.52	[ICRA]A2
NA	Long/short term	NA	NA	NA	(66.50)	[ICRA]BBB+(Negative)/A2

Source: Ramdev Food Products Private Limited

### Annexure-2: List of entities considered for consolidated analysis- Not applicable

## ANALYST CONTACTS

**K. Ravichandran**  
+91 44 4596 4301  
[ravichandran@icraindia.com](mailto:ravichandran@icraindia.com)

**Suprio Banerjee**  
+91 22 6114 3443  
[supriob@icraindia.com](mailto:supriob@icraindia.com)

**Mayank Agrawal**  
+91 79 4027 1514  
[mayank.agrawal@icraindia.com](mailto:mayank.agrawal@icraindia.com)

**Preet Ludhwani**  
+91 79 4027 1542  
[preet.ludhwani@icraindia.com](mailto:preet.ludhwani@icraindia.com)

## RELATIONSHIP CONTACT

**Jayanta Chatterjee**  
+91 80 4332 6401  
[jayantac@icraindia.com](mailto:jayantac@icraindia.com)

## MEDIA AND PUBLIC RELATIONS CONTACT

**Ms. Naznin Prodhani**  
Tel: +91 124 4545 860  
[communications@icraindia.com](mailto:communications@icraindia.com)

### Helpline for business queries:

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

[info@icraindia.com](mailto:info@icraindia.com)

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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](mailto:info@icraindia.com)

Website: [www.icra.in](http://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

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