

September 30, 2021

Poona Dal and Besan Mills Private Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term – Fund Based – CC	16.35	16.35	[ICRA]BBB+ (Stable); reaffirmed
Short-term – Non-fund based	209.00	95.75	[ICRA]A2; reaffirmed
Total	225.35	112.10	

*Instrument details are provided in Annexure-1

Rationale

ICRA has taken a consolidated view of the Poona Dal Group (comprising Poona Dal and Besan Mills Private Limited or PDBM, and its sister concern, Poona Dal and Oil Industries Limited or PDOIL) while arriving at the ratings, as the companies derive significant business and management synergies from each other.

The ratings continue to factor in the Group's established presence for over three decades in the agro-processing, food grains and edible oil industry. 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 food grains are essential constituents of the staple Indian diet. The Group's financial profile remains stable with comfortable capital structure and debt coverage indicators, along with a strong liquidity position. ICRA believes that sizeable surpluses 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 reducing scale and size of operations in FY2021, though it is expected to improve in FY2022 albeit with limited profitability. The operating income of the Group declined by 20% YoY in FY2021 due to a decline in the trading volumes of chickpeas or Bengal gram (*chana*). The Group's trading operations were dependent on imports owing to the price arbitrage opportunity against the domestic procurement. The Government of India (GoI) levied a high import duty of 60% on chickpeas with effect from March 1, 2018 (nil on November 1, 2017), which led to a reduction in the trading turnover in FY2019 and FY2020. However, the import duty has been gradually reduced by the Government to 25% for FY2022. High import duty was a result of surplus domestic production of chickpeas in the country. With the implementation of 5% GST on branded products, the Group resorted to selling unbranded chickpea flour (*besan*) at lower realisations to traders and local retailers, which impacted its overall revenues. The company also faced operational difficulties due to the logistical challenges and reduction in the overall demand amid the pandemic-induced nationwide lockdown. ICRA also notes the company's susceptibility to agro-climatic conditions, the commodity price cycle and currency movements.

The Stable outlook on the [ICRA]BBB+ rating reflects ICRA's opinion that the Group will continue to benefit from its established presence in the agro industry, resulting in a healthy relationship with the customers and suppliers. Going forward, the Group is likely to maintain its comfortable capital structure and healthy debt coverage indicators.

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 food grains. Its other Group entity, PDOIL, is involved in processing edible oils, apart from trading in pulses. The Group has an established presence of more than three decades in the agro and food grains 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.

Comfortable debt coverage metrics and healthy liquidity – The Group's capital structure remains comfortable with adequate accruals, low debt levels of Rs. 16.4 crore and a low gearing of 0.1 times as on March 31, 2021. The Group's interest coverage and TD/OPBITDA also remained comfortable at 2.1 times and 2.5 times, respectively in FY2021. The Group primarily utilises non-fund based facilities for procuring pulses and oils, which results 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, which also keeps its interest cost at a low level.

Stable demand from staple food grains 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 an Indian's daily diet. The Group has developed a strong marketing and distribution network in its catchment area, facilitating Group companies in its sales. The raw material procurement is centralised for both domestic sourcing and imports (pulses and edible oil). As the companies cater to retailers, dealers and wholesale agents, the customer concentration remains low with no customer generating more than 5% of the overall sales in each company.

Credit challenges

Government policy and agro-climatic conditions adversely impact operating performance – The Group deals in food grains 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 are dependent on imports owing to price arbitrage opportunity against domestic procurement. With surplus domestic production of pulses since FY2018, the Government levied a high import duty on chickpeas (60%), limiting imports, which adversely impacted the operating performance and resulted in shrinking revenues. However, the import duty has been gradually reduced by the Government (25%) for FY2022. The company was also affected because of operational challenges, given the logistical challenges and reduction in the overall demand amid the pandemic-induced nationwide lockdown.

Low 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, results in low profit margins. Post the implementation of 5% GST on branded products, the Group resorted to selling unbranded chickpea flour at lower realisations to traders and local retailers, thus impacting its revenues and margins. The Group's profitability, though improved to some extent in FY2021, remains thin with an operating margin of 2.1% compared to 0.8% in FY2020. As per ICRA's estimates, while the revenue of the Group is likely to increase significantly, its profitability could witness a correction on account of higher raw material prices.

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 mitigate the risk to some extent. The exposure to currency movements has reduced significantly post March FY2018, with a reduction in import of pulses, following the revised duty regulations.

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 of ~Rs. 84.9 crore as on March 31, 2021. The Group utilised 9% of the credit limit on an average for the 12-month period ended in July 2021. The Group's cash flow position remains impacted by lower cash accruals and changes in the working capital intensity. The Group does not have any major capex plan in the near term.

Rating sensitivities

Positive factors – ICRA could upgrade the Group's ratings if it demonstrates a significant improvement in its profitability 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 the Group is unable to scale up its operations on a sustained basis, or if there is a decline in profitability below the current levels on a sustained basis. Any significant reduction in the large surplus cash and equivalents would be a key credit negative. Specific credit metric, which could result in ratings downgrade is interest coverage below 3.5 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Financial Consolidation and Rating Approach
Parent/Group Support	PDBM draws comfort from being part of the Poona Dal Group having operational linkages and common management.
Consolidation/Standalone	For arriving at the ratings, ICRA has consolidated the financials of the two Group entities (as mentioned in Annexure-2), given the operational linkages and common management.

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, food grains, edible oils and gram flour (besan). 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.

In FY2021, on a provisional basis, the Group reported a net profit of Rs. 5.4 crore on an operating income (OI) of Rs. 377.6 crore (consolidated) compared to a net profit of Rs. 3.8 crore on an OI of Rs. 471.8 crore in the previous year.

Key financial indicators

Poona Dal and Besan Mills Private Limited	Consolidated		Standalone	
	FY2020	FY2021#	FY2020	FY2021#
Operating Income (Rs. crore)	471.8	377.6	324.9	246.5
PAT (Rs. crore)	3.8	5.4	2.9	4.3
OPBDIT/OI (%)	0.8%	2.1%	0.6%	2.4%
PAT/OI (%)	0.8%	1.4%	0.9%	1.8%
Total Outside Liabilities/Tangible Net Worth (times)	0.6	0.5	0.8	0.8
Total Debt/OPBDITA (times)	2.5	2.1	3.5	2.8
Interest Coverage (times)	2.0	5.2	1.7	7.6

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

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years		
	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date and Rating	Date & Rating in		
					FY2021	FY2020	FY2019
				Sep 30 2021	Apr 24 2020	Oct 04 2019	Feb 15 2019
1 Fund Based/ CC	Long Term	16.35	--	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]A- (Negative)	[ICRA]A- (Stable)
2 Non-fund based	Short Term	95.75	--	[ICRA]A2	[ICRA]A2	[ICRA]A2+	[ICRA]A2+

Complexity level of the rated instrument

Instrument	Complexity Indicator
Long Term – Fund Based/ CC	Simple
Short-term – Non-fund based	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: 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	Long Term – Fund Based/ CC	NA	9.25%	NA	16.35	[ICRA]BBB+ (Stable)
NA	Short-term – Non-fund based	NA	NA	NA	95.75	[ICRA]A2

Source: Company; *Proposed bank limits

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

ANALYST CONTACTS

Jayanta Roy

+91 33 7150 1120

jayanta@icraindia.com

Priyesh Ruparelia

+91 22 6169 3328

priyesh.ruparelia@icraindia.com

Manish Pathak

+91 124 4545397

manishp@icraindia.com

Raunak Agrawal

+91 8939957111

raunak.agrawal@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee

+91 80 4332 6401

jyantac@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

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For more information, visit www.icra.in

ICRA Limited



Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001

Tel: +91 11 23357940-45



Branches



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