

July 27, 2023

Parakh Foods And Oils Limited: Ratings downgraded to [ICRA]A(Negative)/[ICRA]A2+

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund based – Term Loan	56.41	56.41	[ICRA]A (Negative); Rating downgraded from [ICRA]A+ (Negative)
Long-term – Fund based – Cash Credit	130.00	130.00	[ICRA]A (Negative); Rating downgraded from [ICRA]A+ (Negative)
Short-term – Non-fund based – Others	497.00	497.00	[ICRA]A2+; Rating downgraded from [ICRA]A1
Long-term/Short-term – Interchangeable – Others^	(112.50)	(112.50)	[ICRA]A (Negative)/[ICRA]A2+; Ratings downgraded from [ICRA]A+ (Negative)/[ICRA]A1
Long-term/Short-term – Unallocated	0.59	0.59	[ICRA]A (Negative)/[ICRA]A2+; Ratings downgraded from [ICRA]A+ (Negative)/[ICRA]A1
Total	684.00	684.00	

*Instrument details are provided in Annexure-I; ^Sublimit of Cash Credit limit

Rationale

The ratings downgrade factor in the sharp reduction in edible oil prices in FY2023, resulting in large inventory losses realised by Parakh Foods and Oils Limited (PFOL), in turn leading to losses and a sharp decline in its net cash accruals. Consequently, the debt coverage metrics of the company, as reflected by interest cover and DSCR, deteriorated significantly in FY2023. The continued Negative outlook on the PFOL's long-term rating reflects unfavourable price realisations of edible oil expected in the near term, which would keep the company's profitability and debt coverage metrics under pressure. Nevertheless, comfortable liquidity in the form of large cash and bank balances, moderate working capital cycle and significant cushion in its working capital limits would continue to support the company's operations to an extent. The ratings continue to derive comfort from the established brand position of PFOL in the food processing segment with strong presence of its Samrat brand, along with PFOL's established distribution network in western India. This has helped the company diversify and grow its refined oil segment from FY2016 under the new Vilina brand, which drove about 70% of PFOL's oil sales in FY2023. The ratings continue to factor in the extensive experience of the promoters and the financial flexibility that they provide to support the liquidity profile of PFOL, as witnessed in the past. PFOL also benefits from the business synergies with Parakh Agro Industries Limited (PAIL), its sister concern in the erstwhile Parakh Group, with which it shares the Samrat brand, a common distribution network and the sales team. The ratings also factor in the favourable long-term outlook for the organised agro-processing industry, given the changing lifestyles, increasing purchasing power and penetration of modern retail.

The ratings, however, continue to remain constrained by PFOL's exposure to commodity price cycles, as reflected by large inventory losses registered in FY2023. The company's operating margins contracted significantly due to an increase in raw material prices, which the company was unable to pass on entirely to the customers. The company imports crude edible oil and pulses, which constitute ~60% of its raw material cost and expose it to the forex risk. However, on a selective basis, the company hedges this risk by using forward contracts. Further, intense competition in the food processing industry and limited value addition in the pulses milling business result in modest margin for PFOL. The company remains exposed to agro-climatic risks, which could impact raw material availability as well as prices and regulatory risks associated with food related items, which are essential commodities.

Key rating drivers and their description

Credit strengths

Extensive experience of promoters and company in food processing industry – Extensive experience of the promoters and financial flexibility that they provide, support the liquidity profile of PFOL, as witnessed in the past. PFOL also benefits from business synergies with PAIL, its sister concern in the erstwhile Parakh Group, with which it shares the Samrat brand, a common distribution network and sales team.

Leading position with established brand name in the region and strong distribution network in food processing business – The company markets its products, mainly gram flour, dried pea (*vatana*) flour and pulses, to wholesalers and retailers in western and southern India (primarily Maharashtra, Goa and Karnataka) under the Samrat brand as well as unbranded bulk packs. However, its edible oil is mainly sold to retailers under the new Vilina brand as well as in the unbranded bulk packs. Most of the company's brands, especially Samrat, are well recognised and established in Maharashtra. The company has a strong network of ~6,000 distributors and ~25,000 wholesalers, which cater to more than 1 million retailers. This strong distribution network helps the company increase its branded oil sale through the same value chain.

Large and diverse revenue base, comfortable liquidity – The company's revenue base remains large, as reflected by an operating income of Rs. 2,290.1 crore in FY2023, though it declined significantly from Rs. 3,196.9 crore posted in FY2022. Over the past year, the company has diversified its revenue base and continues to add more products with palm oil being the recent one. However, increasing dependence on edible oil increases vulnerability of the company to associated risks such as price volatility. Nevertheless, ICRA notes the comfortable liquidity maintained by the company in the form of large cash and equivalents and significant cushion in bank limits, which supports its working capital requirements and reduces the cost of borrowings.

Credit challenges

Sharp decline in profitability resulting in deterioration in debt coverage metrics – The company reported losses in FY2023 on account of a sharp decline in price realisations of edible oil, which resulted in large inventory losses for the company. As a result, the company's debt coverage metrics deteriorated, as reflected by an interest cover and DSCR of 0.6 and 0.6, respectively in FY2023 (3.3 and 1.7 in FY2022, respectively).

Vulnerability of profitability to fluctuations in prices and intense competition in the industry – Raw materials for edible oil are vulnerable to price fluctuations, as witnessed in FY2023, when prices declined sharply within a short period. The company operates in a very competitive and fragmented industry. Even though PFOL benefits from its established relationships with the customers and a strong brand, limited value addition in food business resulted in a low profitability over the years. Moreover, the company's profitability is very vulnerable to the volatility in the prices, as witnessed over the recent years.

Exposed to foreign exchange fluctuation risk due to sizeable import – The company has sizeable imports in the form of crude edible oil and pulses, which constitute ~60% of its raw material cost. Sizeable imports expose the company to forex risks. However, on a selective basis, the company enters into forwards contracts in foreign currency to hedge the forex risk.

Exposed to agro-climatic and regulatory risks – PFOL remains exposed to the agro-climatic conditions of the countries, from which it procures raw materials, as well as the regulatory environment related to procurement or pricing of agro commodities. In case of high prices, the Government restrictions limit the company's ability to pass on the entire raw material price hike to the customers.

Liquidity position: Adequate

PFOL's liquidity is adequate with positive cash from operations of more than Rs. 20.0 crore estimated in FY2024 and sizeable cash and equivalents of around Rs. 10.00 crore as on June 30, 2023, which mainly consists of fixed deposits. The company's average utilisation of its bank limits stood low at around 10% in FY2023, leaving significant cushion for immediate needs. Further, the company does not have any substantial debt-funded capex plan in the near term. The company has repayments of Rs. 11.04 crore and Rs. 13.53 crore in FY2024 and FY2025, respectively, which would be supported by its cash flows, large free balances and unutilised limits, providing comfort to its liquidity.

Rating sensitivities

Positive factors – The outlook can be revised to Stable if the company demonstrates a significant improvement in its operating margin and liquidity on a sustained basis.

Negative factors – Pressure on PFOL's ratings could arise if the company's profitability declines further, resulting in a major deterioration in its liquidity and debt coverage metrics on a sustained basis. Specific credit metrics that would impact its ratings include TOL/TNW above 1.5 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Edible oil
Parent/Group support	Not Applicable
Consolidation/Standalone	The ratings are based on the company's standalone financial profile.

About the company

PFOL manufactures and sells agro-based products like gram flour, yellow pea flour, pulses and packaged refined oil in the domestic market. The company markets its pulses and flour products under Samrat, Bigul and Nimraja brands, while its refined oil is sold under the Vilina brand. The company shares Samrat brand and common distribution network with PAIL, a sister concern in the erstwhile Parakh Group. PAIL is owned and managed by Mr. Suresh Parakh and family, brother of PFOL's Managing Director, Mr. Prakash Parakh.

Key financial indicators

PFOL Standalone	FY2021	FY2022	FY2023*
Operating income	2126.1	3196.9	2290.1
PAT	65.6	25.6	-20.9
OPBDIT/OI	5.2%	2.0%	0.5%
PAT/OI	3.1%	0.8%	-0.9%
Total outside liabilities/Tangible net worth (times)	1.7	0.7	1.2
Total debt/OPBDIT (times)	0.9	0.7	3.8
Interest coverage (times)	7.9	3.3	0.6

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore, *Provisional data

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 March 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022		Date & rating in FY2021
							Jul 27, 2023	Nov 30, 2022	Aug 26, 2021
1	Fund based Term Loan	Long-term	56.41	37.35	[ICRA]A (Negative)	[ICRA]A+ (Negative)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A (Positive)
2	Fund based Cash Credit	Long-term	130.00	-	[ICRA]A (Negative)	[ICRA]A+ (Negative)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A (Positive)
3	Non-fund based – Others	Short-term	497.00	-	[ICRA]A2+	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A2+
4	Interchangeable – Others^	Long-term/ Short-term	(112.50)	-	[ICRA]A (Negative)/ [ICRA]A2+	[ICRA]A+ (Negative)/ [ICRA]A1	[ICRA]A+ (Stable)/ [ICRA]A1	[ICRA]A+ (Stable)/ [ICRA]A1	[ICRA]A (Positive)/ [ICRA]A2+
5	Long term/ Short term – Unallocated	Long-term/ Short-term	0.59	-	[ICRA]A (Negative)/ [ICRA]A2+	[ICRA]A+ (Negative)/ [ICRA]A1	[ICRA]A+ (Stable)/ [ICRA]A1	-	-

^Sublimit of Cash Credit limit

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term – Fund based – Term loan	Simple
Long-term – Fund based – Cash credit	Simple
Short-term – Non-fund based – Others	Very simple
Long-term/Short-term – Interchangeable – Others	Simple
Long-term/Short-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	Term Loan	2019	8.55%	2026	56.41	[ICRA]A (Negative)
NA	Cash Credit	-	8.00%	-	130.00	[ICRA]A (Negative)
NA	Non-fund based – Others	-	8.75%	-	497.00	[ICRA]A2+
NA	Interchangeable - Others [^]	-	8.75%	-	(112.50)	[ICRA]A(Negative)/[ICRA]A2+
NA	Unallocated	-	NA	-	0.59	[ICRA]A(Negative)/[ICRA]A2+

Source: Company; [^]Sublimit of Cash Credit limit

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

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