

March 28, 2024

Parakh Foods And Oils Limited: Ratings upgraded to [ICRA]A-(Stable)/[ICRA]A2+ and ratings removed from Issuer Non-Cooperating Category

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	16.69	[ICRA]A- (Stable); Rating upgraded from [ICRA]BBB+ (Stable) ISSUER NOT COOPERATING and removed from Issuer Not Cooperating category
Long-term – Fund based – Cash Credit	130.00	65.00	[ICRA]A- (Stable); Rating upgraded from [ICRA]BBB+ (Stable) ISSUER NOT COOPERATING and removed from Issuer Not Cooperating category
Short-term – Non-fund based – Others	497.00	175.00	[ICRA]A2+; Rating upgraded from [ICRA]A2 ISSUER NOT COOPERATING and removed from Issuer Not Cooperating category
Long-term/Short-term – Interchangeable – Others^	(112.50)	0.00	-
Long-term/Short-term – Unallocated	0.59	27.31	[ICRA]A- (Stable)/[ICRA]A2+; Ratings upgraded from [ICRA]BBB+ (Stable) ISSUER NOT COOPERATING/[ICRA]A2 ISSUER NOT COOPERATING and removed from Issuer Not Cooperating category
Total	684.00	284.00	

*Instrument details are provided in Annexure-I; ^ Sublimit of cash credit limit

Rationale

The ratings assigned to the bank limits of Parakh Foods and Oils Limited (PFOL) have been upgraded and removed from the Issuer Not Cooperating category after the company cooperated in sharing the required information.

The ratings take into consideration PFOL's established brand position in the food processing segment with a strong presence of its Samrat brand, along with its established distribution network in western India. These factors have facilitated the company's diversification and growth in the refined oil segment since FY2016 under the new Vilina brand, which accounted for ~63% of PFOL's oil sales in 10M FY2024. The company's financial risk profile is characterised by improved capital structure, modest working capital intensity and comfortable liquidity. Following the stabilisation of edible oil price realisations in FY2024, the company's profitability has improved compared to losses in FY2023, although it remains thin. PFOL maintains comfortable liquidity in the form of large cash and bank balances and cushion in its working capital limits, which will continue to support its operations to a large extent. Further, the ratings continue to factor in the extensive experience of the promoters and the financial flexibility they provide to support PFOL's liquidity profile, as witnessed in the past. PFOL also benefits from business synergies with Parakh Agro Industries Limited (PAIL), its sister concern in the erstwhile Parakh Group, sharing the Samrat brand, a common distribution network and sales team. The ratings also factor in the favourable long-term outlook for the organised agro-processing industry, driven by changing lifestyles, increasing purchasing power and penetration of modern retail.

The ratings, however, continue to remain constrained by the thin profit margins of the company, which continue to exert pressure on its debt coverage metrics as reflected by interest cover and DSCR. However, ICRA notes the improvement in the company's profitability in FY2024 compared to losses in FY2023, following the stabilisation in the raw material as well as sales

prices. 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 affect raw material availability and prices, as well as regulatory risks associated with food-related items, which are essential commodities. Given its presence in the food industry, PFOL's quality and reputation-related risks are high, which could impact its pricing strength and business.

The Stable outlook on the [ICRA]A- rating reflects ICRA's opinion that the company is likely to sustain its operating metrics, even as its revenue may remain volatile on account of fluctuations in the prices. Further, the outlook underlines ICRA's expectation that the company's comfortable liquidity and moderate working capital cycle would support it in durably maintaining its debt protection metrics commensurate with the existing rating.

Key rating drivers and their description

Credit strengths

Extensive experience of promoters and company in food processing industry – The extensive experience of the promoters and the financial flexibility they offer have supported PFOL's liquidity profile, as witnessed in the past. PFOL also benefits from business synergies with PAIL, its sister concern in the erstwhile Parakh Group, sharing 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 primarily markets its products, including 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 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, catering to more than 1 million retailers. This strong distribution network helps the company to increase its branded oil sales through the same value chain.

Large and diverse revenue base – The company's revenue base remains large, as reflected by an operating income of Rs. 2,319.7 crore in FY2023, though it declined significantly from Rs. 3,196.9 crore in FY2022, primarily due to a moderation in price realisations. Over the past year, the company has diversified its revenue base into pulses, flour, edible oil (sunflower and soya), corn grits, and continues to add more products, with palm oil being the recent one. The company is likely to maintain its sales volumes and a steady revenue base of over Rs. 2,000.0 crore in the future years, although overall revenue could decline due to moderation in realisations.

Healthy capital structure, modest working capital intensity and comfortable liquidity – The company maintains a healthy capital structure, with a gearing of 0.6 times as on January 31, 2024, supported by low debt and substantial net worth base. Further, modest working capital intensity results in low borrowings and interest burden. 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

Thin profit margins, though improved from losses in FY2023, would exert pressure on debt coverage metrics – The company reported losses in FY2023 due to a sharp decline in price realisations of edible oil, leading to inventory losses for the company. A similar situation continued during the first half of FY2024, albeit with some improvement. Subsequently, the prices of raw materials as well as retail have stabilised, resulting in profitability. However, the profit margins are thin and would continue to remain under pressure in the near-to-medium term. Consequently, debt coverage metrics, reflected by interest cover and

DSCR would remain under pressure in FY2024, though likely to improve compared to FY2023 metrics (0.5 times and 0.5 times 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 observed in FY2023 and the first half of FY2024 when prices declined sharply. Earlier, in FY2022, the Russia-Ukraine war led to a significant increase in prices of sunflower oil. The company operates in a competitive and fragmented industry. Even though PFOL benefits from its established relationships with the customers, a strong brand and limited value addition in the food business resulted in low profitability over the 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 forward 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, Government restrictions limit the company’s ability to pass on the entire raw material price hike to the customers.

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

Liquidity position: Adequate

PFOL’s liquidity is adequate, with a positive fund flow from operations estimated to be more than Rs. 20.0 crore in FY2024/FY2025, alongside sizeable cash and equivalents of around Rs. 73.0 crore as on January 31, 2024, primarily consisting of fixed deposits. The company’s average utilisation of its bank limits stood low at around 10% in 10M FY2024, leaving a significant cushion for immediate needs. Further, the company does not have any substantial debt-funded capex plans in the near term. Following the recent prepayment of some term loans, the company has nominal repayments of Rs. 7.15 crore in FY2025, which would be supported by its cash flows, large free balances and unutilised limits, providing comfort to its liquidity.

Rating sensitivities

Positive factors – ICRA could upgrade PFOL’s ratings if the company demonstrates a substantial improvement in its operating margins on a sustained basis, along with steady growth in its revenue base over the medium to long term.

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 such as 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 the 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, including his brother, PFOL's Managing Director, Mr. Prakash Parakh.

Key financial indicators

PFOL Standalone	FY2022	FY2023	10M FY2024*
Operating income	3196.9	2319.7	1743.7
PAT	25.6	-23.5	6.8
OPBDIT/OI	2.0%	0.4%	1.9%
PAT/OI	0.8%	-1.0%	0.4%
Total outside liabilities/Tangible net worth (times)	0.7	0.9	0.7
Total debt/OPBDIT (times)	0.7	7.4	4.0
Interest coverage (times)	3.3	0.5	2.2

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

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 February 29, 2024 (Rs. crore)	Date & rating in FY2024			Date & rating in FY2023	Date & rating in FY2022		Date & rating in FY2021
				Mar 28, 2024	Jan 15, 2024	Jul 27, 2023		Nov 30, 2022	Aug 26, 2021	
1 Fund based Term Loan	Long-term	16.69	16.69	[ICRA]A- (Stable)	[ICRA]BBB+ (Stable) ISSUER NOT COOPERATING	[ICRA]A (Negative)	[ICRA]A+ (Negative)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A (Positive)
2 Fund based Cash Credit	Long-term	65.00	NA	[ICRA]A- (Stable)	[ICRA]BBB+ (Stable) ISSUER NOT COOPERATING	[ICRA]A (Negative)	[ICRA]A+ (Negative)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A (Positive)
3 Non-fund based – Others	Short-term	175.00	NA	[ICRA]A2+	[ICRA]A2 ISSUER NOT COOPERATING	[ICRA]A2+	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A2+
4 Interchangeable – Others	Long-term/ Short-term	0.0	NA	-	[ICRA]BBB+ (Stable) ISSUER NOT COOPERATING/ [ICRA]A2 ISSUER NOT COOPERATING	[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	27.31	NA	[ICRA]A- (Stable)/ [ICRA]A2+	[ICRA]BBB+ (Stable) ISSUER NOT COOPERATING/ [ICRA]A2 ISSUER NOT COOPERATING	[ICRA]A (Negative)/ [ICRA]A2+	[ICRA]A+ (Negative)/ [ICRA]A1	[ICRA]A+ (Stable)/ [ICRA]A1	-	-

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 – 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	FY2020	8.55%	FY2026	1.75	[ICRA]A- (Stable)
NA	Term Loan	FY2019	8.55%	FY2026	1.75	[ICRA]A- (Stable)
NA	Term Loan	FY2019	8.55%	FY2026	2.45	[ICRA]A- (Stable)
NA	Term Loan	FY2019	8.55%	FY2026	4.45	[ICRA]A- (Stable)
NA	Term Loan	FY2021	8.55%	FY2026	3.79	[ICRA]A- (Stable)
NA	Term Loan	FY2021	8.55%	FY2026	2.50	[ICRA]A- (Stable)
NA	Cash Credit	NA	8.00%	NA	65.00	[ICRA]A- (Stable)
NA	Non-fund based – Others	NA	8.75%	NA	175.00	[ICRA]A2+
NA	Unallocated	NA	NA	NA	27.31	[ICRA]A- (Stable)/[ICRA]A2+

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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