

June 21, 2024

## Parsons Nutritionals Private Limited: Rating reaffirmed; outlook revised to Positive

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term/ term loan	197.78	197.78	[ICRA]BBB+ (Positive); reaffirmed and outlook revised to Positive from Stable
Long-term/cash credit	38.01	38.01	[ICRA]BBB+ (Positive); reaffirmed and outlook revised to Positive from Stable
Long-term – Unallocated	14.21	14.21	[ICRA]BBB+ (Positive); reaffirmed and outlook revised to Positive from Stable
<b>Total</b>	<b>250.00</b>	<b>250.00</b>	

\*Instrument details are provided in Annexure-I

### Rationale

The revision in outlook to Positive from Stable factors in ICRA's expectations that Parsons Nutritionals Private Limited's (PNPL/the company) operational profile will improve through a growing customer and product base in the flagship company, supported by scale-up in operations of its subsidiaries. Additional capacities and new product launches are expected to lead to continued improvement in scale, while also enhancing revenue visibility given the healthy market position of the company's principals. ICRA also notes that PNPL has received equity infusion of ~Rs. 520 crore recently from a group of private equity (PE) funds led by Lighthouse India Fund. ICRA understands that major part of the equity proceeds will be used to fund the company's capex over the next 1-2 years and ~Rs. 100 crore will be used to repay the company's outstanding debt.

The rating continues to factor in PNPL's established presence and vast experience of its promoters in the food processing industry. Moreover, the company's long track record of established relationships with reputed FMCG brands such as GlaxoSmithKline Consumer Healthcare Limited (GSK), Britannia Industries Ltd. (BIL), ITC Ltd., Mondelez International, has helped it maintain volume growth. ICRA continues to derive comfort from the nature of PNPL's contracts with its principals, which include recovery of fixed costs, irrespective of the production level. Also, the agreements mitigate the potential adverse impact of raw material price volatility to a large extent, by passing on any incremental input cost to principals, thus protecting PNPL's profitability.

The rating is, however, constrained by the operational risks associated with product quality, manufacturing yield and production efficiency, which remain critical in this business. The rating is further constrained by the execution risk inherent in the new projects undertaken as these are in initial stages and may take time to ramp up. Additionally, the company has incurred sizeable debt-funded capex in FY2023 and FY2024 towards enhancing its product portfolio, resulting in significant deterioration in its leverage and coverage metrics. However, this was partly offset to a certain extent with the company's equity raise in Q1 FY2025. The new projects have a lower margin profile but will add significantly to the company's production volumes. Timely ramp-up of these capacities will remain crucial for improvement in the company's coverage metrics. The company's performance remains vulnerable to vagaries of demand in Fast Moving Consumer Goods (FMCG) verticals. ICRA notes that PNPL's principals witnessed such volume pressures in H2 FY2024.

The Positive outlook on the long-term rating reflects ICRA's expectations that PNPL will benefit from the established relationships with its principals, along with ramp-up in the recently commenced production lines. Further, availability of capital for future capex leading to possibility of limited debt addition going forward, augurs well for the company's financial risk profile. The company's ability to generate timely and commensurate returns will be a key rating monitorable.

## Key rating drivers and their description

### Credit strengths

**Extensive experience of management and established relationships with multiple principals** – The company’s promoters have been involved in the food processing business for more than two decades. The promoters have extensive experience in contract manufacturing across various FMCG products including tea, ice cream, nutritional supplements, pharmaceuticals, etc. PNPL is present in the biscuits and related segments and operates manufacturing facilities in Sahibabad (U.P.), Bhiwadi (Rajasthan) and Bengaluru (Karnataka) and has recently opened a unit in Bihar through its wholly-owned subsidiary, Parmann Nutritionals Private Limited (Parmann). Over the years, the company has established business relationships with some of the leading brands in the FMCG industry like BIL, Mondelez, GSK, ITC, HUL, Orion, etc. The company has maintained a healthy share of business for its key customers.

In recent years, the company has added more principals such as TRDP (Mario biscuits) and the Orion Group (Choco Pie and its variants). In FY2023 & FY2024, in its wholly-owned subsidiaries, the company added Tang as a product for its existing principal Mondelez and Kissan tomato ketchup for HUL. In the current fiscal, the company has also added soaps and shampoos for HUL, for which capex has been completed.

**Availability of growth capital through recent equity infusion** - PNPL recently received fresh equity infusion, from Group of PES led by Lighthouse India of Rs. 520 crore, which will be largely utilised towards future capital expenditure with the exception of Rs. 100 crore which will be utilised towards paring down the term debt. With the expected reduction in debt, the coverage indicators are also likely to improve to a certain extent going forward. Further, the company’s reliance on debt for funding its upcoming projects will be limited, given the recent equity raise.

**Profitability remains supported by favourable agreements with principals** – PNPL enters medium-to-long-term bilateral contracts, generally ranging from five to 10 years, with various clients. As per the contracts, irrespective of the offtake/production level from a facility, fixed costs incurred in running a line are recovered from the clients over the tenor of the business. This also includes costs involved in servicing of loans and other general fixed overheads apart from the agreed margin. Further, the raw material price fluctuations are passed on to the principals without any significant delays, which protects the profitability of PNPL. The operating margins reflect variations with respect to the type of revenue, the amount of capex reimbursement, apart from the company’s ability to maximise efficiencies.

### Credit challenges

**Exposed to operational and execution risks** – The agreements with the principals have a pre-defined minimum quantum to be supplied by PNPL. Hence, any decline in the company’s operational parameters like lower yields or the final product not meeting the standard norms of the principal, could impact its operating profitability and business prospects. However, such risks are mitigated, to an extent, by well-defined high-quality check processes followed by the company and its track record with principals. The projects also run the risk of pre-mature termination of contracts, which may happen in case of quality or efficiency issues and, therefore, maintaining the quality, efficiency and minimum yield remains critical in the business. The execution risk may be pronounced for the new projects particularly the soaps & shampoos project, which requires different set of manufacturing processes and suppliers. However, ICRA takes comfort from the fact that the company would be receiving sufficient support from HUL to develop the technical capabilities to manufacture products as per its standard quality requirements. There may also be a risk of cost and time overruns in case of new projects.

**Volatility in demand levels may dampen offtakes by principals** – Since H2 FY2024, FMCG companies have witnessed volume pressure across categories. Going forward, the volatility in demand may result in lower offtake and eventually impact the company’s profitability. The demand trajectory for FMCG players and consequently, the company will be a key monitorable going forward.

**Moderate but improving financial risk profile** – The company’s debt coverage indicators remained stretched by the end of FY2024 as reflected in the estimated Total Debt (TD)/Operating Profit (OPBDITA) of more than 5 times as on March 31, 2024. While coverage indicators are expected to improve going forward on the back of equity infusion leading to debt reduction by Rs. 100 crore, the same will remain moderately stretched, as the returns from new projects are yet to be generated. ICRA, however, notes that the coverage indicators by the end of FY2024 were stretched on account of the company availing term debt in Parmann, against which the returns were not generated within the said period.

### Liquidity position: Adequate

PNPL’s liquidity is adequate, supported by a moderate cushion in the working capital limits, for which the average utilisation was 43% in the last 12 months ending March 2024. The liquidity is further supported by free cash balances (~Rs. 29 crore as on March 31, 2024) which has been further improved significantly on the back of equity infusion in April 2024. For FY2025, the company has long-term repayment of Rs. 65.4 crore, which is expected to be met through net cash accruals. Planned capex plans for new projects would be funded through recent equity proceeds received by the company.

### Rating sensitivities

**Positive factors** – PNPL’s rating could be upgraded, if there is any significant scale-up in earnings, coupled with material diversification in the customer profile. A specific credit metric for an upgrade is if TD/OPBDITA is lower than 2.3 times, on a sustained basis.

**Negative factors** – Pressure on PNPL’s rating could arise, if there is any significant increase in its debt level or deterioration in the liquidity profile. A specific credit metric for a downgrade is if TD/OPBDITA is higher than 3.3 times, on a sustained basis.

### Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">FMCG</a>
Parent/Group support	Not applicable
Consolidation/Standalone	The rating is based on consolidated financial profile of Parsons Nutritionals Private Limited (PNPL) and its wholly-owned subsidiaries Swaji Nutritionals Private Limited (SNPL) & Parmann Nutritionals Private Limited (Parmann).

### About the company

Parsons Nutritionals Private Limited, incorporated in 2005, operates as a contract manufacturer of processed food products for some of the well-known brands in the FMCG sector. PNPL has manufacturing facilities in Sahibabad (Ghaziabad), Bhiwadi (Rajasthan), Harohalli (Bengaluru) and Bihar. PNPL continues to operate with multiple principals and shares its production facilities. The company’s key clients include GlaxoSmithKline Consumer Healthcare Limited (GSK), Britannia Industries Ltd. (BIL), ITC Ltd., Mondelez International, and Orion India Pvt. Ltd, among others. The company is promoted by Mr. S. S. Mann, who has more than three decades of experience in manufacturing FMCG products. The Mann Group has contract manufacturing operations across various FMCG products including tea, ice cream, nutritional supplements, pharmaceuticals, etc.

PNPL has recently started two new projects in its wholly-owned subsidiaries, SNPL & Parmann, for newly added products from Mondelez and HUL, respectively.

### Key financial indicators (audited/provisional)

PNPL consolidated	FY2022	FY2023	9MFY2024*
Operating income	509.8	739.3	546.9
PAT	18.6	51.6	33.5
OPBDIT/OI	15.7%	17.7%	19.7%
PAT/OI	3.6%	7.0%	6.1%
Total outside liabilities/Tangible net worth (times)	2.5	3.1	3.1
Total debt/OPBDIT (times)	3.0	3.5	4.3
Interest coverage (times)	5.5	6.3	4.7

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation, \*- Provisional

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

### Any other information: None

### Rating history for past three years

Instrument	Type	Current rating (FY2025)		Chronology of rating history for the past 3 years			
		Amount rated (Rs. crore)	Amount outstanding as on Mar 31, 2024 (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022
				Jun 21, 2024	June 19, 2023	June 15, 2022	Oct 07, 2021
1 Term loans	Long-term	197.78	-	[ICRA]BBB+ (Positive)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB (Positive)
2 Cash credit	Long-term	38.01	-	[ICRA]BBB+ (Positive)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB (Positive)
3 Unallocated	Long-term	14.21	-	[ICRA]BBB+ (Positive)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB (Positive)

### Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term – Term loans	Simple
Long-term – 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	<b>Term Loans</b>	FY2018	NA	FY2030	197.78	[ICRA]BBB+ (Positive)
NA	<b>Cash Credit</b>	NA	NA	NA	38.01	[ICRA]BBB+ (Positive)
NA	<b>Unallocated</b>	NA	NA	NA	14.21	[ICRA]BBB+ (Positive)

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

**Annexure II: List of entities considered for consolidated analysis**

Company Name	Ownership	Consolidation Approach
<b>Parsons Nutritionals Private Limited</b>	NA*	Full Consolidation
<b>Swaji Nutritionals Private Limited</b>	100.00%	Full Consolidation
<b>Parmann Nutritionals Private Limited</b>	100.00%	Full Consolidation

Source: Company, \*parent company

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