

August 23, 2017

## Chordia Food Products Limited

### Summary of rated instruments

Instrument*	Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based Limits	10.00	[ICRA]BB (Negative); Revised from [ICRA]BB+ (Stable)
<b>Total</b>	<b>10.00</b>	

\*Instrument details are provided in Annexure-1

### Rating action

ICRA has revised the long-term rating from [ICRA]BB+ (pronounced ICRA double B plus) to [ICRA]BB (pronounced ICRA double B) to the Rs. 10.00-crore<sup>1</sup> fund-based facilities of Chordia Food Products Limited (CFPL or the company)<sup>2</sup>. The outlook on the long-term rating is revised from Stable to Negative.

### Rationale

The rating revision takes into consideration losses recorded by the company at net level in FY2017 and Q1 FY2018 on account of worsening cost structure caused by increase in fixed and input costs and higher overheads on plant maintenance which in turn have led to deteriorating interest coverage and total debt / OPBDITA. The operating margins have witnessed a steep decline in FY2017 and furthermore in Q1FY2018 pressured by intense competition in the segment limiting pricing flexibility leading to pressures on the interest coverage metrics. The rating also remains constrained by the modest scale of operations, geographical concentration and high working capital intensity on back of seasonal nature of procurement leading to high inventory holding. CFPL's business operations also remain exposed to the agro climatic risks which affect the availability and price of agro based raw materials and competitive pressures in a fragmented industry with presence of numerous organized as well as unorganized players.

The rating, however, continues to derive comfort from long standing experience of the promoters of over three decades in the food processing industry with strong presence and brand recognition in Maharashtra. The rating also continues to factor in the comfortable capital structure with gearing standing at 0.24 as on March 2017 on account of limited borrowing restricted only to working capital. ICRA takes note of the favourable demand prospects of the processed food items, however scaling up of operations by improving operational efficiencies remains to be seen. Going forward, maintaining cost economies will be critical from the credit perspective to improve cash accruals position from current levels.

### Key rating drivers

#### Credit strengths

- **Extensive experience of the promoters in food processing industry** – Promoters of the company have over three decades of experience working in the food processing industry. CFPL has established marketing and sales network across the state of Maharashtra which has helped the company nurture its brand in the processed food industry.
- **Reputed brands in food processing industry** - CFPL sells pickles under three brands – Navin, Pravin and Toofan. The brands have good recognition especially in the Western regions of

<sup>1</sup> 100 lakh = 1 crore = 10 million

<sup>2</sup> For complete rating scale and definitions, please refer to ICRA's website [www.icra.in](http://www.icra.in) or other ICRA Rating Publications

Maharashtra, and enjoy a moderate market share in the pickles segment in these regions. The company has sold its two brands: Pravin and Toofan to a group company, Raja Flavours and Foods LLP (RFFL), and receives a royalty for the use of these brands from RFFL.

- **Comfortable capital structure** –CFPL has a comfortable capital structure with gearing of 0.24 in FY2017. Debt entirely comprises working capital borrowings while the corresponding net worth base is relatively strong. With no significant capital expenditure plan lined up, the debt profile and thus capital structure of CFPL is expected to remain comfortable over the near term.

#### **Credit weaknesses**

- **Declining operating margins and net losses reported in FY2017 and Q1 FY2018 on back of unfavorable cost structure** – The operating margins have witnessed a declining trend from FY 2014-FY2017 and Q1FY2018. CFPL reported net losses in FY2017 and also in Q1 FY2018 primarily on account of unfavorable cost structure. Owing to increasing overheads and competitive pressures, there is limited pricing flexibility which suppresses profitability and cash accruals. Furthermore, considerable expenditure towards repairs and maintenance of its manufacturing plant has affected CFPL's profitability in FY2017. Consequently, in view of modest accruals the interest coverage indicators have weakened.
- **Modest scale of operations; competition from organized and unorganized players in the food processing industry** – CFPL operates a modest scale in the processed food industry which is characterized by presence of several organized and unorganized players. Increasing competitive pressures and limited the scale up of operations.
- **Geographical concentration risk with majority of revenue derived from Maharashtra** – CFPL has its market presence largely concentrated in the state of Maharashtra. Though sales outside Maharashtra are looked after by CFPL's group companies, revenue contribution from sales outside Maharashtra is marginal. Having effective presence in one state exposes CFPL to a geographical concentration risk.
- **High working capital intensity due to high inventory levels** – As most of the raw material procured by CFPL is seasonal in nature, the company has to hold high levels of inventory throughout the year, resulting into higher inventory carrying costs. As a result, CFPL exhibits high working capital intensity which renders reliance on external working capital borrowings.
- **Raw material prices remain vulnerable to agro climatic conditions prevailing in the country** – The key raw materials procured by CFPL comprise agricultural products such as mango, lemon, turmeric, etc. Being agro-products, these are vulnerable to agro climatic conditions which affect its availability and prices. Raw materials being a major cost component, any inability to pass on price risks have a critical bearing on the profitability metrics.

**Analytical approach:** For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

#### **Links to applicable criteria**

[Corporate Credit Rating Methodology](#)

**About the company**

Incorporated in 1982, Chordia Food Products Limited (CFPL/the Company) is promoted by Mr. Hukmichand Chordia and family. The company was initially incorporated as a Private Limited Company and subsequently was converted into a Public Limited Company in 1986. The Company is primarily engaged in the manufacturing and marketing of *pickles* and also deals in other processed foods items like sauces, instant mixes, spices pastes, milk shake mixes, custard powder and syrups. The pickles manufactured are sold under three brands namely; Navin, Pravin and Toofan. CFPL has two manufacturing units in Maharashtra and Tamil Nadu of which currently unit at Maharashtra is operational with an installed capacity of 6500 MT per annum.

**Key Financial Indicators (Audited)**

	<b>FY2016</b>	<b>FY2017</b>
Operating Income (Rs. crore)	41.32	51.90
PAT (Rs. crore)	0.52	-0.72
OPBDIT/ OI (%)	6.27%	3.72%
RoCE (%)	9.19%	2.73%
Total Debt/ TNW (times)	0.26	0.24
Total Debt/ OPBDIT (times)	3.45	4.27
Interest coverage (times)	1.79	1.38
NWC/ OI (%)	29.57%	21.86%

*OI: Operating Income; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net-Worth + Deferred Tax Liability - Capital Work - in Progress);*  
*NWC: Net Working Capital*

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

**Any other information:** Not applicable

**Rating history for last three years**  
**Table**

Sr. No.	Name of Instrument	Current Rating (FY2018)			Chronology of Rating History for the past three years		
		Type	Rated amount (Rs. Crore)	Month-year & Rating	Month-Year & Rating in FY2017	Month-Year & Rating in FY2015	Month-Year & Rating in FY2013
				Aug-17	Feb-17	Jan-15	Mar-13
1	Cash Credit	Long Term	10.00	[ICRA]BB (Negative)	[ICRA]BB+ (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)

**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**

<b>ISI N No</b>	<b>Instrument</b>	<b>Date of Issuance / Sanction</b>	<b>Coupon Rate</b>	<b>Maturity Date</b>	<b>Size of the issue  (Rs. crore)</b>	<b>Current Rating and Outlook</b>
NA	Cash Credit	-	-	-	10.00	[ICRA]BB (Negative)

Source: the company

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### About ICRA Limited:

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