September 03, 2020

Gopal Sweets Private Limited: Ratings revised to [ICRA]BB+(Negative)/[ICRA]A4+

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term: Fund Based – Term Loan	14.00	14.00	[ICRA]BB+(Negative); Revised from [ICRA]BBB-(Negative)
Long-term: Fund Based –Overdraft	5.00	5.00	[ICRA]A4+; Revised from [ICRA]A3
Total	**19.00**	**19.00**	

**Instrument details are provided in Annexure-1*

Rationale

The revision in Gopal Sweets Private Limited's (GSPL) ratings factors in its weakening financial profile and bleak market scenario due to reduced consumer spending amid the Covid-19 pandemic. Moreover, the company's liquidity profile is under pressure with limited buffer on working capital limits, while its cash and liquid investments remained low. GSPL's financial profile remained weak in FY2019 because of the moderation in profitability owing to increase in consumable cost and its limited ability to pass on the price increases. Given its sizeable near-term debt repayments, the company's ability to maintain its profitability remains crucial. While the promoters infused unsecured loans to fund the capital expenditure incurred in FY2019, the interest rate on these facilities are higher than the bank facilities, putting further pressure on margins. The ratings remain constrained by the company's modest scale of operations and seasonal nature of business. The ratings note the fragmented nature of the snacks market with local manufacturers as well as other established participants. Further, given that the company is in the food business, the quality of its products is closely monitored.

The ratings, however, favourably consider the extensive experience of the promoters and the company's established position in the sweets market in Punjab and Haryana, given its long presence and strong brand, i.e. Gopal's. These factors have led to a healthy growth in operating income (OI) in the past. Additionally, GSPL opened two stores in FY2019. While the expansion bodes well for medium-term revenue growth prospects, the increased overheads may result in a slight moderation in its profitability over the same period. Nonetheless, it faces high geographical concentration risk with all its stores in a few states.

Key rating drivers and their description

Credit strengths

Modest regional presence; steady increase in number of outlets – The company manufactures traditional sweets and snacks. It operates 12 restaurants across Punjab, Chandigarh and Haryana under the brand name, Gopal's. It has a strong brand presence and customer acceptance in its area of operations. Moreover, it has been steadily increasing the number of its outlets, thereby expanding its market reach.

Extensive experience of promoters – The current promoters have healthy experience of over two decades in the restaurant business.

Credit challenges

Modest scale of operations, declining profitability and weak market scenario – While ICRA notes the improvement in the company's revenues over the past few years, its scale of operations remains moderate. Further, with modest scale and increase in overheads, the operating margins have been on a continuous decline over the past three years. Additionally, the need to maintain quality amid perishable inventory increases wastage and in turn leads to high costs. Moreover, the domestic demand remains unfavourable owing to the Covid-19 pandemic.

Stretched liquidity position – GSPL's liquidity position remains stretched as reflected by lower cushion on undrawn working capital limits. In addition, there had been a considerable increase in the company's debtor levels as on March 31, 2019.

Intense competition from several organised and unorganised players – The company faces stiff competition from both organised and unorganised players in the food and food products industry. It remains exposed to intense competition from local manufacturers of sweets and *namkeens,* other restaurant operators, along with established quick-service restaurant chains. This limits its pricing flexibility and bargaining power with customers, and thus puts pressure on its revenues and margins.

Quality risks – Given the company's operations in the food industry, risks regarding quality and reputation remain high.

Vulnerability of profitability to adverse fluctuation in raw material prices – The company's margins are mainly affected by the raw material price fluctuation, which in turn affects sales realisations. Any adverse movement in the price of raw materials may have a negative impact on GSPL's margins, considering its limited ability to pass on the price hike owing to intense competition.

Liquidity position: Stretched

GSPL's liquidity position is **stretched** as reflected by high utilisation of working capital limits, which averaged at 86% during the 11 month period ending in June 2020 and limited cash balances. Sustenance of free cash flows will remain critical, given the company's significant debt repayment obligations over the medium term.

Rating sensitivities

Positive triggers – Given the Negative outlook, a rating upgrade over the near term is less likely. However, a change in outlook to Stable or upward movement in the rating could happen if there is healthy recovery in its business for supporting the earnings and cash accruals, along with an improvement in the liquidity profile.

Negative triggers – Negative pressure on GSPL's rating could arise if there is weak demand environment going forward, which could impact the scale. Higher loss in operations, depletions in liquidity and lack of timely promoter contribution could also put negative pressure on the ratings.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	[Corporate Credit Rating Methodology](#) [Rating Outlook and Rating Watch](#)
Parent/Group Support	Not applicable
Consolidation/Standalone	Not applicable

About the company

GSPL was established by Mr. Hari Gopal Singh as a proprietorship firm named Gopal Sweets in 1954 in Patiala. Later, in 2009, the proprietorship firm was converted into a private limited company. At present, it is owned and managed by Mr. Singh's sons. It manufactures snacks such as *namkeens*, sweets, biscuits, etc, under the brand name of Gopal through its manufacturing facilities in Patiala and Panchkula. The company owns and operates 12 restaurants across Punjab, Chandigarh and Haryana under the brand name, Gopal's. In addition, it undertakes catering services in the said region.

Key financial indicators (audited)

	FY2018	FY2019
Operating Income (Rs. crore)	90.72	107.27
PAT (Rs. crore)	3.24	3.83
OPBDITA/OI (%)	9.32%	7.91%
RoCE (%)	18.13%	17.71%
Total Outside Liabilities/Tangible Net worth (times)	1.13	1.72
Total Debt/OPBDIT (times)	1.80	1.65
Interest Coverage (times)	5.06	5.75
DSCR (times)	2.06	1.49

Source: GSPL; ICRA research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2021)				Rating History for the Past 3 Years		
		Type	Amount Rated	Amount Outstanding	Rating	FY2020	FY2019	FY2018
					3-Sept-20	5-Dec-19	26-Jun-18	-
1	Term Loan	Long Term	14.0	-	[ICRA]BB+(Negative)	[ICRA]BBB- (Negative)	[ICRA]BBB- (Stable)	
2	Overdraft	Short Term	5.0	-	[ICRA]A4+	[ICRA]A3	[ICRA]A3	

Amount in Rs. crore

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 click here

Annexure-1: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
-	Term Loan	2014	-	2023	14.00	[ICRA]BB+(Negative)
-	Overdraft	-	-	-	5.00	[ICRA]A4+

Source: GSPL

Annexure-2: List of entities considered for consolidated analysis: Not applicable

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