Chordia Food Products Limited

July 16, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term, Fund-based - Working Capital Facilities	10.0	14.5	[ICRA]BB Reaffirmed; outlook revised from Negative to Stable
Total	**10.0**	**14.5**	

*Instrument details are provided in Annexure-1

Rating action

ICRA has reaffirmed the long-term rating of [ICRA]BB (pronounced ICRA double B) to the Rs. 14.5-crore[1] (previously Rs. 10.0-crore) bank facilities of Chordia Food Products Limited (CFPL or the company)[2]. The outlook on the long-term rating has been revised from Negative to Stable.

Rationale

The revision in outlook reflect the recovery from losses and consequent improvement in the coverage indicators in FY2018 on account of improving cost structure as most of the expenditure towards repair works of ageing plant has been incurred. The profitability, nevertheless, continues to be pressured by intense competition from organized and unorganized players in food processing industry limiting pricing flexibility. ICRA also takes note of the continuing modest scale of operations owing to the high geographical concentration of revenues with a de-growth of 10% in operating income recorded in FY2018 following lower than anticipated demand over the fiscal. On back of seasonal nature of procurement which leads to high inventory holding, CFPL's business operations remain exposed to the agro climatic risks which affect the availability and price of agro based raw materials.

The rating reaffirmation, 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 0.2x as of March 2018 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.

Outlook: Stable

ICRA believes CFPL will continue to benefit from the extensive experience of its promoters. The outlook may be revised to Positive if substantial growth in revenue and improvement in profitability, and better working capital management, strengthen the financial risk profile. The outlook may be revised to Negative if weakening of profitability, lower than expected cash accrual , any major capital expenditure or maintenance capex without commensurate returns or stretch in the working capital cycle, weakens its liquidity profile and leads to cash flow mismatches.

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[1] *100 lakh = 1 crore = 10 million*

[2] *For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications*

Key rating drivers

Credit strengths

Extensive experience of the promoters in food processing industry – The promoters of the company have over three decades of experience 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.

Strong presence and brand recognition in Maharashtra - CFPL sells pickles under three brands – Navin, Pravin and Toofan. The brands have good recognition especially in the Western regions of 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 0.2x in FY2018. 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.

Recovery from losses in FY2018 - CFPL reported net losses 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 led to deteriorating interest coverage. However the company was able to recover from losses in FY2018 which led to improvement in profitability and the coverage indicators. The company reported OPM of 7.2% and NPM of 1.6% in FY2018 as compared to 3.7% and -1.4% in FY2017.

Credit challenges

Modest scale of operations; competition from organized and unorganized players in the food processing industry – With an operating income of Rs. 46.7 crore posting a de-growth of 10% over the previous year, CFPL continues to operate a modest scale in the processed food industry which is characterized by presence of several organized and unorganized players and competitive pressures which limits scale up of operations and pricing flexibility.

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 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 in exposure to price risks and higher inventory carrying costs. As a result, CFPL exhibits high working capital intensity which renders reliance on external working capital borrowings though at conservative levels.

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. Food processing business being raw material intensive , 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 its manufacturing unit in Maharashtra with an installed capacity of 6500 MT per annum. The company has approved the scheme of arrangement for amalgamation of its group company, Pravin Foods Private Limited into CFPL. Also, the company has approved the scheme of arrangement for demerger of food business of Chordia Food Park and Properties Limited - another group company - into CFPL.

Key financial indicators (Audited)

	FY2017	FY2018
Operating Income (Rs. crore)	51.9	46.7
PAT (Rs. crore)	-0.7	0.7
OPBDIT/OI (%)	3.7%	7.2%
RoCE (%)	2.7%	9.0%
Total Debt/TNW (times)	0.2	0.2
Total Debt/OPBDIT (times)	4.3	1.7
Interest coverage (times)	1.4	3.2

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

		Current Rating (FY2019)				Chronology of Rating History for the Past 3 Years		
	Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs.crore)	Date &Rating July 2018	Date & Rating in FY2018 August 2017	Date & Rating in FY2017 February 2017	Date & Rating in FY2017 July 2016
1	Cash Credit	Long Term	14.5	-	[ICRA]BB (Stable)	[ICRA]BB (Negative)	[ICRA]BB+ (Stable)	[IVRA]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

Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit	NA	NA	NA	14.5	[ICRA]BB(Stable)

Source: Chordia Food Products Limited

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About ICRA Limited:

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