August 30, 2019

Prataap Snacks Limited: Ratings reaffirmed at [ICRA]A+(Stable)

Summary of rated instruments

Instrument*	Previously Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term: Fund-based cash credit	16.00	-	-
Long Term: Fund-based term loan	42.00	-	-
Long Term: Unallocated	-	58.00	[ICRA]A+ (Stable)
Total	**58.00**	**58.00**	

Instrument details are provided in Annexure-1

Rationale

The reaffirmation of Prataap Snacks Limited's (PSL) rating continues to factor in the well diversified product portfolio across 3 segments including a wide range of snack foods, flavours and SKUs addressing a large consumer base. ICRA also takes note of the significant market share held by PSL in the rings segment (extruded snack). The rating also draws comfort from the integrated sales & distribution network of more than 240+ super stockists and 4,100+ distributors ensuring effective market penetration. ICRA favourably factors in the strategic location of manufacturing facilities across various parts of India which has enabled in lowering the logistics cost, de-risking from concentration in one facility, reducing transit time and improve serve rate. Further, the financial risk profile of PSL remains comfortable aided by low debt levels and capital infusion by Sequoia Capital[1] and IPO proceeds supported the networth position at Rs. 561.36 crore as on March 31, 2019. The same has resulted in healthy gearing of 0.03 times and TOL/ TNW of 0.5 times. Also, coverage metrics remain strong with interest cover of 97.0 times, NCA/ Total debt of 443% and DSCR of 93.3 times in FY2019. The rating also factors in the rich experience of promoters for more than two decades in the snack food industry.

The ratings, however continues to remain constrained by PSL's exposure to stiff competition from branded packaged food players (both multinationals and regional players) in the savoury snack manufacturers. The margins remain vulnerable to adverse movements in raw materials, although operational engineering efforts undertaken by PSL's management has aided in restricting margin contraction. Further, PSL's presence in the food industry has exposed it to brand reputation risks arising out of any consumer product liability claims, product labelling errors, which could impact brand reputation. ICRA also takes note of the new product launches and entry into newer geographies where failure to launch and market new products due to unpredictable consumer preferences might have a material adverse effect on business.

[1] Sequoia Capital through its three funds namely Sequoia Capital India growth investment Holdings I, Sequoia Capital GFIV Mauritius Investments and SCI Growth Investments II has invested ~Rs. 128.0 crore in four tranches starting May 2011

Outlook – Stable

The stable outlook reflects ICRA's expectation that PSL will continue to benefit from its established brand equity and report healthy revenue growth and liquidity position. Further, steady demand for packaged foods driven by increasing affordability, urbanisation, changing lifestyles/customer preferences, and favourable demographics, translate into low business risks for the company. The outlook may be revised to Positive if PSL reports substantial growth in revenues and profitability supported by its ability to capture market share with its new product launches and conquer the Gujarat market through its acquisition of Avadh Snacks Private Limited support growth momentum. The outlook may be revised to Negative in case the revenue growth and cash accruals are lower than expected, or if any major capital expenditure, or stretch in the working capital cycle, weakens liquidity.

Key rating drivers

Credit strengths

Well diversified product portfolio – PSL has a well-diversified product portfolio with over 60 products across 3 segments including a wide range of snack foods, flavours and SKUs addressing a large consumer base.

Strong distribution network – PSL has a strong supply chain and pan India integrated sales & distribution network of more than 240+ super stockists and 4,100+ distributors ensuring effective market penetration.

Strategically located manufacturing facilities – PSL has manufacturing facilities spread across various parts of India which has enabled in (1) lowering the logistics cost, (2) de-risking from concentration in one facility, (3) lower transit time and (4) improve serve rate i.e., availability of products – closer to delivery schedule

Healthy financial risk profile – The financial risk profile of PSL remains comfortable aided by low debt levels and capital infusion by Sequoia and IPO proceeds supported the networth position at Rs. 561.36 crore as on March 31, 2019. The same has resulted in healthy gearing of 0.03 times and TOL/ TNW of 0.5 times. Also, coverage metrics remain strong with interest cover of 97.0 times, NCA/ Total debt of 443% and DSCR of 93.3 times in FY2019.

Rich experience of promoters - The promoters of the PSL have more than two decades of experience in the snack food industry and have extensive control on the day-to-day operations in the business. Promoters hold ~23.04% stake in the business.

Credit challenges

Exposure to competition – PSL operates in food industry, wherein it faces competition from large multinationals and local/ regional players exposing to high competition and thereby pricing pressure. Further, with its entry into newer product segment and new markets, PSL remains exposed to increased competition. Failure to launch and market new products due to unpredictable consumer preferences might have a material adverse effect on business.

Volatility in margins associated with seasonality of raw materials – PSL's major raw material include potatoes, rice, corn and gram all being agricultural products. Being dependant on monsoons and weather conditions, exposes its margins to fluctuations in raw material prices. The same has resulted in contraction of margins from 8.4% in FY2018 to 7.1% in FY2019.

Quality risks - Being in the foods industry, PSL is exposed to brand reputation risks arising out of any consumer product liability claims, product labelling errors, could impact brand reputation.

Liquidity position

The liquidity position remains comfortable with no long-term repayment obligation as against unencumbered cash balances of Rs. 72.6 crore as on March 31, 2019.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not applicable
Consolidation/Standalone	Consolidated

About the company

Prataap Snacks Limited (PSL) was promoted by Mr. Arvind Mehta, Mr. Apoorva Kumat and Mr. Amit Kumat. PSL commissioned its first manufacturing plant in 2005 for potato chips and subsequently, diversified into other product categories including "extruded snacks" and "namkeens". Further, it diversified into sweet snack segment in 2018 which constitute to ~2.5% of FY2019 revenues. The company raised Rs. 236 crore through an IPO in September, 2017. PSL acquired Avadh Snacks Private Limited to provide an entry into Gujarat market and recently in July 2019 completed the amalgamation of its wholly owned subsidiary, Pure N Sure Food Bites Private Limited.

Key financial indicators

Consolidated	FY2018	FY2019
Operating Income (Rs. crore)	1036.7	1170.6
PAT (Rs. crore)	44.2	44.6
OPBDIT/ OI (%)	8.4%	7.1%
RoCE (%)	16.7%	9.8%
Total Debt/ TNW (times)	0.01	0.03
Total Debt/ OPBDIT (times)	0.09	0.21
Interest coverage (times)	29.9	97.0

Source: PSL

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

	Instrument	Current Rating (FY2020)				Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating in FY2019	Date & Rating in FY2018		Date & Rating in FY2017
					Aug 2019	Sept 2018	Feb 2018	Apr 2017	-
1	Term Loan	Long Term	42.00	-	-	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A (Stable)	-
2	Cash Credit	Long Term	16.00	-	-	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A (Stable)	-
3	Unallocated	Long Term	58.00	58.00	[ICRA]A+ (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	Unallocated	-	-	-	58.00	[ICRA]A+ (Stable)

Source: PSL

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Prataap Snacks Limited	-	Full Consolidation
Pure N Sure Food Bites Private Limited	100.00%	Full Consolidation
Avadh Snacks Private Limited	80.00%	Full Consolidation

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

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