January 31, 2020

Chordia Food Products Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-Term, Fund-based – Working Capital Facilities	14.50	14.50	[ICRA]BB(Stable); Reaffirmed
Total	**14.50**	**14.50**	

**Instrument details are provided in Annexure-1*

Rationale

The reaffirmation of rating takes into consideration the extensive experience of promoters of Chordia Food Products Limited (CFPL or the company) in the food processing industry and the healthy brand recognition enjoyed by the company in Maharashtra and surrounding territories through its brands – Navin, Pravin and Toofan. The rating also takes into account CFPL's comfortable capital structure as reflected from a gearing of 0.1 times as on September 30, 2019.

The rating, however, continues to remain constrained by CFPL's stagnant revenues owing to intense competition from organised and unorganised players in the food processing industry. The rating also remains constrained by the declining trend in CFPL's margin on back of higher raw material prices and overheads in FY2019 and H1FY2020 and high working capital intensity due to high inventory levels in line with nature of its operations. Raw material prices in the food business are vulnerable to climatic conditions and agricultural output. CFPL also continues to exhibit high geographical concentration risk with majority of revenue derived from Maharashtra.

Key rating drivers and their description

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.

Reputed brands with healthy brand recognition in Maharashtra and surrounding territories – 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.

Financial risk profile characterized by comfortable capital structure – CFPL has a comfortable capital structure with gearing of 0.2x in FY2019. Debt profile as on March 31, 2019largely comprised working capital borrowings and unsecured loans from promoters while the corresponding net worth base is relatively strong. The company has availed term loan for capital expenditure in H1FY2020, although the capital structure is expected to remain largely unchanged on back of absence of any further debt-funded capex over the near to medium term.

Credit challenges

Stagnant revenues owing to competition from organized and unorganized players in food processing industry – With a marginal revenue growth of 3% in FY2019, CFPL continues to operate on a modest scale in the processed food industry, which is characterized by presence of several organized and unorganized players. The competitive pressures, limits scale up of operations and pricing flexibility.

Declining operating profit margins on back of higher raw material prices and overheads in FY2019 and H1FY2020 – CFPL has witnessed a declining trend in its operating margin in FY2019 as well as H1FY2020. Its operating margin decreased from 11.9% (FY2018) to 9.7% (FY2019) and further to 5.2% (H1FY2020) primarily on account of unfavourable raw material procurement costs as well as higher overhead expenses (especially marketing costs) during the period under consideration.

Geographical concentration risk with majority of revenues 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 high geographical concentration risk.

High working capital intensity due to high inventory levels – As most of the raw materials procured by CFPL are 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 as reflected from NWC/OI of 33.5% in FY2019.

Raw material prices in the foods business are vulnerable to climatic conditions and agriculture output – The key raw materials procured by CFPL comprise agricultural products such as mango, lemon and turmeric amongst others. Being agro-products, these products are vulnerable to agro-climatic conditions, which affect their availability and prices. Food processing business being raw material intensive, any inability to pass on price risks has a critical bearing on the profitability metrics.

Liquidity position: Adequate

CFPL continues to exhibit adequate liquidity position. The company had an external term loan of Rs. 2.5 crore as on September 30, 2019 with modest repayments of ~Rs. 0.5 crore in the near term. The cash accruals are expected to remain sufficient to meet the capital expenditure requirements. The buffer from undrawn working capital limits, which stood at Rs. 11.7 crore as on December 31, 2019, provides comfort to its liquidity position.

Rating sensitivities

Positive triggers – Ratings may be upgraded if the company exhibits significant increase in revenues and profitability on a sustained basis.

Negative triggers – Ratings may be downgraded if there is any decline in scale and profitability or if there is any deterioration in liquidity profile of the company.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not Applicable
Consolidation / Standalone	The ratings are based on the standalone financial statements of the rated entity.

About the company

Incorporated in 1982, CFPL 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. Itis 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 6,500 MT per annum. The company approved the scheme of arrangement for amalgamation of its group company, Pravin Foods Private Limited into CFPL and the scheme of arrangement for demerger of food business of Chordia Food Park and Properties Limited - another group company - into CFPL. The scheme of arrangement is applicable with effect from FY2017.

CFPL recorded an operating income of Rs. 61.0 crore with net profit of Rs. 2.1 crore in FY2019. The company recorded an operating income of Rs. 33.9 crore with net profit of Rs. 0.3 crore in H1FY2020.

Key financial indicators (Audited)

	FY2018	FY2019
Operating Income (Rs. crore)	59.5	61.0
PAT (Rs. crore)	3.0	2.1
OPBDIT/OI (%)	11.9%	9.7%
RoCE (%)	15.5%	9.2%
Total Debt/TNW (times)	0.3	0.2
Total Debt/OPBDIT (times)	1.5	1.2
Interest Coverage (times)	6.4	5.7

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

		Current Rating (FY2020)				Chronology of Rating History for the Past 3 Years			
					Date & Rating	Date & Rating in FY2019	Date & Rating in FY2018	Date & Rating in FY2017	
	Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	31-Jan-20	16-Jul-18	23-Aug-17	3-Feb-17	8-Jul-16
1	Cash Credit	Long-Term	14.50	NA	[ICRA]BB (Stable)	[ICRA]BB (Stable)	[ICRA]BB (Negative)	[ICRA]BB+ (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

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	-	-	-	14.50	[ICRA]BB(Stable)

Source: Chordia Food Products Limited

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

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