

October 09, 2019

## Ramdev Food Products Private Limited: Ratings reaffirmed

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based Cash Credit	74.50	70.66	[ICRA]BBB+(Stable); Reaffirmed
Fund-based Term Loan	55.31	33.47	[ICRA]BBB+(Stable); Reaffirmed
Non fund-based Bank Guarantee	1.52	1.52	[ICRA]A2; Reaffirmed
Fund/Non fund-based limits- sublimit to cash credit	0.00	(75.00)	[ICRA]BBB+(Stable)/A2; Reaffirmed
Unallocated Limits	0.00	25.68	[ICRA]BBB+(Stable)/A2; Reaffirmed
<b>Total</b>	<b>131.33</b>	<b>131.33</b>	

\*Instrument details are provided in Annexure-1

### Rationale

The ratings reaffirmation continues to take into account the extensive experience of the promoters and the company's brand presence in the organised spice industry and its well-entrenched distribution network in India. The ratings also factor in the above average financial risk profile of Ramdev, characterised by a modest gearing level, adequate coverage indicators low working-capital intensive nature of the business resulting in significant undrawn working capital limits. The profitability, which remains satisfactory, is supported by various fiscal incentives available to the company.

The ratings, however, remain constrained by the company's flat revenue growth in the last two years, coupled with slow pick-up of the snacks division and the intense competition in the spice processing and packaged snacks industry, which limits the pricing flexibility. The ratings also factor in the susceptibility of the company's revenues and profitability to commodity price fluctuations, which are influenced by external factors such as agro-climatic conditions and adverse changes in Government policies. Further, as the company is in the food business, it remains exposed to quality-related risk.

### Key rating drivers

#### Credit strengths

**Extensive experience and track record of promoters in spice business; robust distribution network** – Established in 1965, the promoters of Ramdev have five-decade long experience in the spice industry. It has an established market position in the organised spice business and it enjoys a long-standing relationship with its suppliers. Moreover, its well-entrenched distribution network (1400 distributors) and brand recognition are competitive advantages in the spice industry.

**Above average credit profile** – Ramdev's capital structure has remained moderate, with a gearing of 1.2 times as on March 31, 2018 and 1.0 times as on March 31, 2019. As there are no major debt-funded capex in the near future, the capitalisation metrics are likely to improve on the back of its scheduled repayments and accretion to reserves. Its coverage indicators remained adequate, with interest cover of 5.1 times in FY2018 and 3.9 times in FY2019, net cash accruals/total debt of 25% for FY2018 and 24% in FY2019. The average utilisation of working-capital facilities has

remained at 47% against the eligible drawing power for the last fifteen months that ended July 2019, lending a good financial flexibility.

**Availability of various fiscal benefits** – Being a new manufacturing unit, Ramdev’s snacks plant is eligible for various fiscal incentives from the Central Government and the state government, which is an added benefit and is expected to support the profitability.

## Credit challenges

**Vulnerability of revenues and profitability to commodity price fluctuations** - The operating income declined by 3% in FY2018 to Rs. 364 crore from Rs. 378.4 crore in FY2017 because of decline in revenues from basic spices and trading revenues. The decline in the basic spices segment was because Chilli prices plummeted by almost ~20-25%. The revenues stood flat at Rs. 364.2 crore in FY2019, marked by decline in products like instant mixes, asafoetida and blended spices, compensated by the increase in revenues from basic spice (with increase in sales realisation) and trading revenues. The snacks division continues to witness a low offtake since commencement of the operations in March 2016 mainly on account of intense competition from other packaged snacks players in the organised market. The revenues from the snacks division stood at Rs. 30.33 crore in FY2018 and Rs. 34.58 crore in FY2019 (against Rs. 29.25 crore in FY2017). Ramdev’s operations remain vulnerable to availability of agro-commodities and volatility in their prices, which are influenced by external factors like climatic conditions, demand-supply mismatch etc. Additionally, any adverse change in Government policies may impact the company’s revenue and profitability.

**Intense competition and quality-related risks** - The spice processing and the packaged snacks industries are highly competitive and fragmented, given the low entry barriers and the limited complexity of work involved. This restricts the company’s pricing power and hence, the profitability. In the snacks division, Ramdev is a new player and has witnessed lower-than-expected off-take since commencement of the operations. While it is an established player in the Spice industry, it does not remain insulated to competition from other organised and unorganised players. Being in the food industry, risks regarding quality and reputation also remains high.

## Liquidity position: Adequate

The liquidity position of the company remains adequate, supported by sufficient cash accruals against scheduled repayments. Moreover, the undrawn working capital limits to the extent of ~50-53% (against the drawing power) and the absence of major capex plan in near to medium term provide cushion to the liquidity.

## Rating sensitivities

**Positive triggers** – ICRA could upgrade Ramdev’s ratings if the company demonstrates a sustained improvement in its scale and profitability. Specific credit metrics that could lead to an upgrade of Ramdev’s rating include (1) Total Debt/OPBITDA below 2.25 times on a sustained basis; and (2) Interest coverage ratio greater than 5.3 times on a sustained basis.

**Negative triggers** – Negative pressure on Ramdev’s ratings could arise if, for reasons including decline in scale or increase in input costs due to shift in the industry conditions or intense competition, affecting the profitability, or a rise in debt funded capex or investments. Specific negative triggers are the interest coverage ratio less than 3.5 times or Total Debt/OPBITDA more than 3 times.

## Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">Corporate Credit Rating Methodology</a>
Parent/Group Support	Not applicable
Consolidation/Standalone	The ratings are based on the standalone financial statement of the issuer.

## About the company

Established in 1965, Ramdev Food Products Private Limited (Ramdev) manufactures spices, blended spices, instant mixes etc. at its facility in Changodar, Gujarat and packaged snacks at its facility at Chiyada near Ahmedabad in Gujarat. It is promoted by Mr. Ram Patel and is managed by Mr. Hasmukh Patel and his family. The company has a well-established distribution network across India, with major presence in western India. It sells its products under the brand Ramdev and Vedam. Ramdev has also obtained various certifications for its products and plants.

In FY2019, the company reported a net profit of Rs. 11.2 crore on an operating income (OI) of Rs. 364.2 crore, compared to a net profit of Rs. 18.9 crore on an OI of Rs. 364 crore in FY2018.

## Key financial indicators (audited)

	FY2018	FY2019
Operating Income (Rs. crore)	364.0	364.2
PAT (Rs. crore)	18.9	11.2
OPBDIT/OI (%)	13.0%	10.9%
RoCE (%)	17.7%	12.2%
Total Debt/TNW (times)	1.2	1.0
Total Debt/OPBDIT (times)	2.5	2.5
Interest Coverage (times)	5.1	3.9
DSCR (times)	1.2	1.0

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

## Any other information: None

### Rating history for last three years

	Instrument	Current Rating (FY2020)			Rating History for the Past 3 Years			
		Type	Amount Rated	Amount Outstanding	Rating	FY2019	FY2018	FY2017
					09-Oct-2019	27-Jul-2018	-	-
1	Cash Credit	Long Term	70.66	NA	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	-	-
2	Term Loan	Long Term	33.47	35.4*	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	-	-
3	Bank Guarantee	Short Term	1.52	NA	[ICRA]A2	[ICRA]A2	-	-
4	Long/short term interchange-sublimit to cash credit	Long Term	(75.00)	NA	[ICRA]BBB+ (Stable)/A2	-	-	-
5	Unallocated Limits	Long Term	25.68	NA	[ICRA]BBB+ (Stable)/A2	-	-	-

\*As on March 31, 2019

### 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

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	70.66	[ICRA]BBB+(Stable)
NA	Term Loan	FY2016	NA	FY2021	5.89	[ICRA]BBB+(Stable)
NA	Term Loan	FY2017	NA	FY2022	4.08	[ICRA]BBB+(Stable)
NA	Term Loan	FY2016	NA	FY2021	2.33	[ICRA]BBB+(Stable)
NA	Term Loan	FY2017	NA	FY2022	3.54	[ICRA]BBB+(Stable)
NA	Term Loan	FY2016	NA	FY2021	2.92	[ICRA]BBB+(Stable)
NA	Term Loan	FY2017	NA	FY2023	10.70	[ICRA]BBB+(Stable)
NA	Term Loan	FY2016	NA	FY2021	4.71	[ICRA]BBB+(Stable)
NA	Bank Guarantee	NA	NA	NA	1.52	[ICRA]A2
NA	Long/short term interchange-sublimit to cash credit	NA	NA	NA	(75.00)	[ICRA]BBB+(Stable)/A2
NA	Unallocated Limits	NA	NA	NA	25.68	[ICRA]BBB+(Stable)/A2

Source: Ramdev Food Products Private Limited

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

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