Pravin Masalewale

April 01, 2021

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating1	Rating Action
Long Term Bank Facilities	128.28 (Reduced from 143.88)	CARE A-; Stable (Single A Minus; Outlook: Stable)	Reaffirmed
Short Term Bank Facilities	2.00	CARE A2 (A Two)	Reaffirmed
Total Bank Facilities	**130.28 (Rs. One Hundred Thirty Crore and Twenty-Eight Lakhs Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The reaffirmation of the long-term and short-term ratings to bank facilities of Pravin Masalewale (PMW) continues to derive strength from the long track record and experience of promoters in the spices business, stable scale of operations and comfortable capital structure of the Chordia group [includes PMW and Kamal industries (KI)], strong brand presence and established market position throughout Maharashtra. The ratings also factor in the wide distribution network across various states, diversified product portfolio and comfortable working capital cycle of the group.

However, the ratings strengths are constrained due to vulnerability of the margins to fluctuations in the prices of agro-based raw materials which are seasonal in nature, presence in the fragmented food processing industry, geographical concentration of revenue, exposure to risks related to competition and partnership constitution of the firm limiting the financial flexibility.

Rating Sensitivities

Positive Factors - Factors that could lead to positive rating action/upgrade:

- Substantial improvement in the company's operational profile leading to increase in TOI above Rs.750.00 crore on sustained basis along with sustained profitability margin.
- Retention of net profit in the business by more than 75% leading to improvement in net-worth and capital structure of the firm.

Negative Factors- Factors that could lead to negative rating action/downgrade:

- Any un-envisaged debt leading to significant deterioration in capital structure with overall gearing deteriorating beyond 0.80x and Total debt to GCA beyond 1.50x.
- Fall in PBILDT margin by 300bps.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced of partners in manufacturing of Indian spices and processed food business

The group was established in 1962 and is jointly spearheaded by Mr. Raj Kumar Chordia (Managing Partner), Mr. Vishal Chordia and Mr. Anand Chordia as partner who handle the day-to-day operations of the firm. The partners have long experience in the food industry. Over a period, the firm Pravin Masalewale has established itself as one of the leading players in the processed food industry in the state of Maharashtra. The group has also moved up the value chain from being just supplier of various spices to seller of spice mixes and instant mixes.

Strong brand name and established market position in Maharashtra

The group markets and distributes its products primarily under six brands: 'Suhana', 'Ambari', 'Sarvam', 'Seva', 'Toofan' and 'Pravin'. The products of the firm are sold under the above brand names depending on the pricing and quality of spices. 'Suhana' continues to be one of the leading brands in regular spices segment in Indian markets particularly in Maharashtra region. From FY21 the group has discontinued the 'Seva' brand due to low response in the market and low margins in the product.

[1]*Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*

Diversified product portfolio

The group's product portfolio is divided into segments like pure spices, blended spices (including mixed spices and instance mixes), papad, pickle Ginger Garlic, Kasturi methi (fenugreek seeds), Pudina products, Ketchup sauces and saunf (Mint products and Fennel seeds). The group has a huge product base of more than 335 products in FY21 and it manufactures more than 1330 different sizes under the spices segment. The group manufactures following categories of products namely: 1) Blended spices 2) single ingredient spices like chilli, turmeric and coriander, 3) ready to use food items. 4) Pickles 5) Kasturi methi and other products.

Established distribution network throughout Maharashtra and other states

The group supplies its products both in Indian and international markets. The concern has strong distribution network in Maharashtra as well as other states of India. Within India it has appointed distributors throughout Maharashtra, Goa, Karnataka, Rajasthan, Madhya Pradesh, Gujarat, Uttar Pradesh, Chhattisgarh and Andhra Pradesh. In the international markets, PMW distributes the products in USA, Canada, South Africa, Kuwait, Australia, New Zealand, Oman, UK and Mauritius.

Stable scale of operations with improved profitability levels

The group registered a CAGR of 11.30% in total operating income (TOI) to Rs.655.98 crore in FY20 from Rs.529.50 crore during FY18 led by increase in installed capacity utilization and subsequent higher sales coupled with rise in per kg sales realization prices of various commodities majorly blended (mixed) spices and chilly spices. During 9MFY21 the group has registered the TOI of Rs.553.71 crore, albeit the operations were affected due to nationwide lockdown for some part of the current year.
During FY20, the PBILDT margin improved to 16.41% from 15.00% during FY19 due to reduction in selling and distribution expense on account of discontinuation of sales through distributors in Assam and Chhattisgarh which was not profitable. Following the same, the PAT margin also improved from 8.65% during FY19 to 9.15% during FY20. The Gross cash accruals (GCA) also increased to Rs.74.64 crore in FY20 from Rs.67.29 crore in FY19.

Financial risk profile marked by comfortable capital structure and debt coverage indicators

The debt profile of group consists of long-term debt of Rs.56.81 crore, working capital borrowings of Rs.1.25 crore and unsecured loans of Rs.0.47 crore from related parties. The capital structure stood comfortable with overall gearing at 0.39x as on March 31, 2020 as against 0.48x as on March 31, 2019 led by accretion of profits to reserves adding to the net-worth. The net-worth of the group increased from Rs. 119.91 crore as on March 31, 2019 to Rs.151.03 crore as on March 31, 2020. Furthermore, with improved PBILDT margins the PBILDT interest coverage ratio strengthened 12.06x during FY20 from 11.88x during FY19. Also, the total debt to PBILDT also improved to 0.54x as on March 31, 2020 from 0.61x as on March 31, 2019.

Comfortable working capital cycle albeit high inventory days reflecting moderate working capital nature of the business

The operating cycle of the group remained comfortable during past three years in the range of 54 days to 59 days though the average inventory days remains high in the range of 91 days to 92 days due to seasonal availability of raw materials especially raw chilli which is procured during the month of January to May every year and stored throughout the year. However, the collection days remained comfortable in the range of 12 days to 20 days and creditors days in 45 days to 54 days offsetting the impact of high inventory to sales period.

Key Rating Weaknesses

Vulnerability to fluctuation in prices of agro-based input materials which are seasonal in nature.

Agro commodities like garlic, chilli, turmeric, coriander, raw mangoes, cloves, salt and cardamom are the key raw material for the production of various spices. Due to seasonality of raw material profitability of the firm is vulnerable due to fluctuations in raw material prices and also due to commoditized nature of the business and even the processes which involves limited value addition. Going forward, the ability of the group to maintain consistent profitability margin and manage competition within the industry are the key rating monitorable.

Geographical concentration of revenue from the state of Maharashtra and presence in highly competitive and fragmented food processing industry

The revenue of the group is primarily generated from the Maharashtra and Karnataka region. The revenue of PMW is highest from Maharashtra which accounts for 90.07% of revenue in FY20 (87.43% in FY19) and for KI around 80.00% of the revenue is generated from Karnataka. Considering the pan India markets, the market share of the group is very limited, and it faces intense competition from established players with strong presence throughout India. Moreover, the group faces competition from organized as well as unorganized players. Within the organized sector it faces competition from many established players at domestic level.

Impact of COVID-19

The operations of the firm continued, though on low capacity utilization due to unavailability of contractual labors and transportation facilities during the nationwide lockdown post outbreak of COVID-19. The sales were marginally affected, however, the products being essential commodity the sales continued during the lockdown and procurement of raw materials were delayed due to market being closed. The firm resumed full-fledged production after government's relaxation to production of essential commodities from May 2020 post which the sales too picked up.

Constitution as a partnership firm

Both the firms PMW and KI are partnership firms managed by the Chordia family. Due to the constitution of the firms, they are exposed to the risk of withdrawal of capital by the partners. As a policy, partners have been withdrawing profits on regular basis from PMW. Any substantial withdrawals from capital account impacting the capital structure would be a key rating monitorable.

Liquidity: Adequate –

Adequate liquidity characterized by sufficient cushion in gross accruals of Rs.74.64 crore and cash flow from operations of Rs.70.42 crore in FY20 vis-à-vis repayment obligations of Rs.17.07 crore in FY21 and moderate unencumbered cash and bank balance of Rs.16.32 crore as on March 31, 2020. The GCA in medium term is expected to moderately increase with increase in scale of operation and improvement in PBILDT margin. The company's capex requirements are modular and are being funded by internal accruals. Its bank limits are utilized to the extent of ~4.00% hence unutilized credit lines provide extra comfort in meeting its daily working capital requirements.

Analytical approach: Combined

CARE has considered combined performance of two group entities PMW and KI as the firms have common promoter family deriving operational synergies, similar line of business and, financial linkages in terms of sales and purchases and marketing activities.

Applicable Criteria

Criteria on assigning 'outlook' and 'credit watch' to credit Ratings
Short Term Instruments
CARE's Policy on Default Recognition
CARE's methodology for manufacturing companies
Rating methodology: Notching by factoring linkages in rating
Rating Methodology: Consolidation
Financial ratios – Non-Financial Sector
Liquidity Analysis of Non-Financial Sector Entities

About the Company

Pravin Masalewale

Pravin Masalewale (PMW) was formed in 1962 located in Pune. PMW is a partnership firm, engaged in manufacturing and sales of packaged spices and trading of papad and pickles. The firm is jointly spearheaded by three active partners Mr. Rajkumar Chordia (30%), his elder son, Mr. Vishal Chordia (30%) and younger son, Mr. Anand Chordia (30%) who manages the day to day operations of the firm and Mrs. Madhubala Chordia, wife of Mr. Rajkumar Chordia acts a partner (10%). PMW has four manufacturing units, out of which three units are located in Maharashtra and one unit is located in Telanagana. PMW is engaged in the processing of pure spices, blended spices (including mixed spices and instance mixes) and trading of papad, pickle manufactured by its sister concerns viz. KI and Chordia Food Products Limited (CFPL).

Kamal Industries

Kamal Industries (KI) was established as a partnership firm in 2007. The firm is jointly spearheaded by Mr. Anand Chordia (50%) and Mrs. Madhubala Chordia, wife of Mr. Rajkumar Chordia, who acts a partner (50%). Both the partners look after day to day operations of the firm. KI engaged in the manufacturing of Pickles, Ginger Garlic Paste, various ingredients for spice blends such as Kasturi Methi (Fenugreek), Saunf (Fennel) etc. Apart from manufacturing of its own products, the firm is also engaged in trading of the goods manufactured by its sister concerns viz. Pravin Masalewale and Chordia Food Products Limited (CFPL).

Combined:

Brief Financials Combined (Rs crore)	FY19 (UA)	FY20 (UA)
Total operating income	618.96	655.98
PBILDT	94.07	107.66
PAT	53.54	60.03
Overall gearing (times)	0.48	0.39
Interest coverage (times)	11.88	12.06

UA: Un-audited

Standalone: Pravin Masalewale

Brief Financials Standalone (Rs crore)	FY19 (A)	FY20 (A)
Total operating income	612.65	639.72
PBILDT	91.90	106.44
PAT	53.13	59.07
Overall gearing (times)	0.51	0.66
Interest coverage (times)	12.79	11.10

A: Audited

Status of non-cooperation with previous CRA: Not applicable
Any other information: Not applicable
Rating History for last three years: Please refer Annexure-2
Covenants of rated instrument / facility: *Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3*
Complexity level of various instruments rated for this company: Annexure 4

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	-	37.78	CARE A-; Stable
Fund-based - LT-Cash Credit	-	-	-	90.50	CARE A-; Stable
Non-fund-based - ST-Bank Guarantees	-	-	-	2.00	CARE A2

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Term Loan	LT	37.78	CARE A-; Stable	-	1)CARE A-; Stable (30-Mar-20)	1)CARE A-; Stable (22-Feb-19)	1)CARE A-; Stable (22-Mar-18) 2)CARE BBB+; Positive (10-Apr-17)
2.	Non-fund-based - ST-Forward Contract	ST	-	-	-	1)Withdrawn (30-Mar-20)	1)CARE A2 (22-Feb-19)	1)CARE A2 (22-Mar-18) 2)CARE A3+ (10-Apr-17)
3.	Fund-based - LT-Cash Credit	LT	90.50	CARE A-; Stable	-	1)CARE A-; Stable (30-Mar-20)	1)CARE A-; Stable (22-Feb-19)	1)CARE A-; Stable (22-Mar-18) 2)CARE BBB+; Positive (10-Apr-17)
4.	Non-fund-based - ST-Bank Guarantees	ST	2.00	CARE A2	-	1)CARE A2 (30-Mar-20)	1)CARE A2 (22-Feb-19)	1)CARE A2 (22-Mar-18) 2)CARE A3+ (10-Apr-17)

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities- NA

Annexure 4: Complexity level of various instruments rated for this company

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Cash Credit	Simple
2.	Fund-based - LT-Term Loan	Simple
3.	Non-fund-based - ST-Bank Guarantees	Simple

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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