Pravin Masalewale (Revised)

May 11, 2022

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	138.71 (Enhanced from 128.71)	CARE A-; Positive (Single A Minus; Outlook: Positive)	Reaffirmed
Short Term Bank Facilities	7.00	CARE A2 (A Two)	Reaffirmed
Total Bank Facilities	**145.71 (Rs. One Hundred Forty-Five Crore and Seventy-One Lakhs Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The reaffirmation of the rating assigned to the bank facilities of Pravin Masalewale (PMW) 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, and diversified product portfolio and comfortable working capital cycle of the group.

The above 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 firms limiting the financial flexibility. The ratings further take into account the project execution emanating from the ongoing capacity augmentation project.

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.850 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 group.

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 on a sustained basis
- Fall in PBILDT margin by 300bps on a sustained basis

Outlook: Positive

The positive outlook on long-term bank facilities is on account of the improvement in the performance of the company during the current fiscal and CARE Rating's expectation of improvement in its business and financial risk profile in the medium term. The outlook may be revised to stable if the company is unable to achieve the desired scale of operations and plough back the envisaged surplus on a sustained basis.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoters 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 group. The partners have long experience in the food industry. Over a period, the firm PMW 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.

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Strong brand name and established market position in Maharashtra

The group markets and distributes its products primarily under six brands: 'Suhana', 'Ambari', 'Sarvam', 'Toofan', 'Pravin', and 'Navin'. The products of the group 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.

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 also distributes the products in USA, Canada, South Africa, Kuwait, Australia, New Zealand, Oman, UK and Mauritius.

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.

Financial risk profile marked by growing scale of operations, moderate profitability levels, and comfortable solvency position

The combined scale of operation of PMW registered a growth of ~14% growth in TOI on a y-o-y basis at Rs.750.01 crore during FY21 from Rs.655.98 crore during FY20 majorly driven by increase in capacity utilization and higher per kg sales realization of various products majorly chilli powder and coriander powder. During FY21, the PBILDT margin declined to 15.14% from 16.41% during FY20 on account of increase in raw material cost. Following the same, the PAT margin also declined from 9.15% during FY20 to 7.99% during FY21 despite similar capital charges.

During 9MFY22, the group has registered a combined sales of around Rs.700 crore and is expected to achieve a turnover of more than Rs.800 crore in FY22.

As on March 31, 2021, the overall gearing though deteriorated remained comfortable at 0.61x as against 0.39x as on March 31, 2020. The deterioration was owing to the higher utilization of working capital borrowings. Further, the debt coverage continues to remain comfortable with PBILDT interest coverage of 17.92x for FY21 (FY20.: 12.06x) and total debt to GCA of 1.19x as at the end of FY21 (FY20: 0.78x)

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 55 days to 60 days though the average inventory days remains high in the range of 90 days to 100 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 5 days to 15 days and creditors days in 45 days to 55 days offsetting the impact of high inventory to sales period.

Key Rating Weaknesses

Geographical concentration with majority of the revenue coming from Maharashtra region

The revenue of the group is primarily generated from the Maharashtra and Karnataka region. PMW generates highest from Maharashtra (around 90%) while KI generates maximum revenue (around 80%) 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.

Competition from established and regional manufacturers

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 such as Eastern Condiments Private Limited, Sunrise Foods Private Limited, MDH Spices, Everest Spices, Catch Foods, Mother's Recipe, Ramdev, Badshah masala, Kamdhenu, Pushp spices, Rakesh Masala etc. Considering the unorganized sector, the competition for group has increased due to the presence of small and regional

players primarily catering to low-income level customers. Due to highly competitive and fragmented industry, group needs to sustain its aggressive sales promotional activities to maintain its market position. High competition within the industry limits the ability of the concern to transfer increasing prices of raw materials as it involves the risk of becoming less competitive.

Project execution risk

PMW is in process of enhancing its capacity at Bholi. The project will be executed in 2 phases. Phase I will comprise of infrastructure set-up for the unit and Phase II will comprise of purchase and installation of plant and machinery. The total cost for Phase I is estimated at Rs.75 crore which will be funded by term loans (Sanctioned) of Rs.40 crore and remaining through internal accruals. The company has incurred around 25% of the project cost as on March 30, 2022 and the project is expected to be completed by December 2022.

The total cost of Phase II is estimated at Rs.110 crore which is proposed to be funded by term loan of Rs.90 crore and remaining through internal accruals. The financial closure for Phase II is not yet achieved as the same will commence post completion of Phase I. The Phase II is expected to be completed by August 2023.

Further, the firm is also setting up a cold storage unit at Telangana. The total cost of the project is estimated at Rs.17 crore which will be funded through term loan of Rs.7 crore (Sanctioned) and remaining through internal accruals. As on March 30, 2022, the company has already incurred 86% of the project cost and the project is expected to be completed by May 2022.

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 group 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.

Constitution as a partnership firm

Both the firms are partnership firm managed by the Chordia family. Due to the partnership nature constitution, they are exposed to the risk of withdrawal of capital by the partners as well as long-term existence of business operations under the firm. As a policy, partners have been withdrawing capital on regular basis from PMW.

Liquidity: Strong

Strong liquidity characterized by sufficient cushion in gross accruals of vis-à-vis repayment obligations and moderate unencumbered cash and bank balance of Rs.2.98 crore as on March 31, 2021 and around Rs.3.00 crore as on March 29, 2022. The expected GCA for FY23 is Rs.123.55 crore as against the debt repayment obligation of Rs.8.95 crore. The bank limits of PMW and KI are utilized to the extent of around 50% hence unutilized credit lines provide extra comfort in meeting the daily working capital requirements.

Industry Outlook:

The Indian food industry is poised for huge growth, increasing its contribution to world food trade every year. In India, the food sector has emerged as a high-growth and high-profit sector due to its immense potential for value addition, particularly within the food processing industry. Further, the adoption of food safety and quality assurance mechanisms such as Total Quality Management (TQM) including ISO 9000, ISO 22000, Hazard Analysis and Critical Control Points (HACCP), Good Manufacturing Practices (GMP) and Good Hygienic Practices (GHP) by the food processing industry offers several benefits. It enables adherence to stringent quality and hygiene norms and thereby protect consumer health, prepare the industry to face global competition, enhance product acceptance by overseas buyers and keep the industry technologically abreast of international best practices.

Analytical approach: Combined

CARE has taken a combined view of two entities of Chordia Group: Pravin Masalewale and Kamal Industries due to their managerial and financial linkages. Both the entities are engaged into same line of business. The table below provides information about the profit/loss sharing pattern in both the entities as on March 31, 2021:

Name of Partner	% of profit/loss sharing in PMW	% of profit/loss sharing in KI
Rajkumar Hukmichand Chordia	30.00	0.00
Vishal Rajkumar Chordia	30.00	0.00
Anand Rajkumar Chordia	30.00	50.00
Madhubala Rajkumar Chordia	10.00	50.00

Applicable Criteria

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

About the Company

PMW was formed as a partnership firm in 1962 located in Pune. It is engaged in manufacture and sale of packaged spices and trading of papad and pickles. The total installed capacity for the production facility is 36700 MT per annum of which the average capacity utilization stood at 66.57% for FY21. The products are marketed primarily under six brands namely: Suhana, Ambari, Sarvam, Toofan and Pravin.

Brief Financials (Rs. crore) – Combined	31-03-2020 (UA)	31-03-2021 (UA)	9MFY22 (UA)
Total operating income	655.98	750.01	701.68
PBILDT	107.66	113.55	NA
PAT	60.03	59.89	NA
Overall gearing (times)	0.39	0.52	NA
Interest coverage (times)	12.06	17.92	NA

UA: Un-Audited, NA: Not Available

Brief Financials (Rs. crore) – Standalone	31-03-2020 (A)	31-03-2021 (A)	9MFY22 (UA)
Total operating income	639.72	720.53	661.02
PBILDT	106.44	111.19	104.00
PAT	59.07	56.78	NA
Overall gearing (times)	0.66	0.69	0.65
Interest coverage (times)	11.10	13.53	8.89

A: Audited; UA: Un-Audited; NA: Not Available

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	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	-	Oct 2027	38.21	CARE A-; Positive
Fund-based - LT-Cash Credit	-	-	-	-	100.50	CARE A-; Positive
Non-fund-based - ST-Bank Guarantee	-	-	-	-	2.00	CARE A2
Non-fund-based - ST-Forward Contract	-	-	-	-	5.00	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 2022-2023	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020
1	Fund-based - LT-Term Loan	LT	38.21	CARE A-; Positive	1)CARE A-; Positive (06-Apr-22)	1)CARE A-; Stable (01-Apr-21)	-	1)CARE A-; Stable (30-Mar-20)
2	Non-fund-based - ST-Forward Contract	ST	-	-	-	-	-	1)Withdrawn (30-Mar-20)
3	Fund-based - LT-Cash Credit	LT	100.50	CARE A-; Positive	1)CARE A-; Positive (06-Apr-22)	1)CARE A-; Stable (01-Apr-21)	-	1)CARE A-; Stable (30-Mar-20)
4	Non-fund-based - ST-Bank Guarantee	ST	2.00	CARE A2	1)CARE A2 (06-Apr-22)	1)CARE A2 (01-Apr-21)	-	1)CARE A2 (30-Mar-20)
5	Non-fund-based - ST-Forward Contract	ST	5.00	CARE A2	1)CARE A2 (06-Apr-22)	-	-	-

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities: Not Applicable

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

Sr. No	Name of instrument	Complexity level
1	Fund-based - LT-Cash Credit	Simple
2	Fund-based - LT-Term Loan	Simple
3	Non-fund-based - ST-Bank Guarantee	Simple
4	Non-fund-based - ST-Forward Contract	Simple

Annexure 5: Bank Lender Details for this Company

To view the lender wise details of bank facilities please **click here**

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

Contact us

Media Contact
Name: Mradul Mishra
Contact no.: 022-6754 3573
Email ID: mradul.mishra@careedge.in

Analyst Contact
Name: Monika Goenka
Contact no.: 88793 00881
Email ID: monika.goenka@careedge.in

Relationship Contact
Name: Aakash Jain
Contact no.: 81064 00001
Email ID: aakash.jain@careedge.in

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