

Prayagh Nutri Products Private Limited

February 13, 2023

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long-term bank facilities	115.00	CARE A-; Stable	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The rating assigned to the bank facilities of Prayagh Nutri Products Private Limited (Prayagh) continues to derive strength from experienced promoters with established track record of operations in confectionary business, established regional presence of the company with owned brand 'Cintu' and 'Lavian' in candy segment, established network of distributors, comfortable capital structure and stable industry outlook. The strengths are however partially offset by fluctuating profitability margins, working capital intensive business, volatile raw material prices, regulated and competitive nature of industry.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- TOI increasing to more than ₹800 crore with a PBILDT margin of above 10% on a consistent basis.
- Shortening of operating cycle to less than 60 days.
- Notable improvement in ROCE and TD/GCA from existing levels.

Negative factors

- Deterioration in the overall gearing above unity, in future.
- Decline in PBILDT margin to less than 5%, on a sustained basis.

Analytical approach: Standalone

Key strengths

Experienced promoters with long track record of operations

Preetam Lalwani (Managing Director) is a commerce graduate and has more than two decades of experience in the field of administration, finance, and marketing. He is supported by his son Vinod Preetam Lalwani (Executive Director), who has completed postgraduation in food technology from CFTRI, Mysore and has vast experience in production, quality and R&D operations in the field of sugar confectionery and chocolates. The company has a proven track record of business with more than twenty years of presence in the industry. The manufacturing facilities of Prayagh are ISO 9001:2008 and HACCP certified, and all confectionery products are ISI marked. Prayagh is also certified by the newly fitted FSSC 22000 for 'Organization's food safety responsibilities' and is also licensed by FSSAI.

Established regional presence of brand Cintu and Lavian

The brands 'Cintu' and 'Lavian' are an established brand in the candy segment in rural parts of southern Indian region. Prayagh manufactures around nine varieties of confectionary which includes candy, lollipop, choco coated wafers, jelly, toffee, eclair, etc. Apart from this Prayagh has also started the bar line and moulded wafers line for manufacturing Bountybar and Kitkat. At present, the brands have a market presence in 25 Indian states and 5 union territories, and also export to Africa, Nepal and Dubai. However, Prayagh has major presence in Maharashtra. The revenue contribution from top 10 states accounts for 70%-72% of the total revenue during FY22 making it predominantly a regional player and exposing it to geographical concentration risks. However, the company is expanding its presence to all parts of the country and plans to have a pan-India presence. Apart from this, the company also earns conversion charges for the orders executed for ITC which forms only 2% of the total sales of FY22 as well as H1FY23.

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

Well established sales network for the company

The company has developed an effective supply chain and distribution network through its stockists, distributors, and retailers across the geography. The company has an established network of distributors across India. Company has a distribution network of close to 3,860 distributors who are covering approximately 5,00,000 retail outlets. These distributors are serviced through 150-odd super stockiest who have been chosen by the sales team based on their coverage, service and investment levels.

Comfortable capital structure and financial risk profile

The capital structure of the company remains comfortable with relatively lower debt levels and adequate net worth base. The overall gearing remained comfortable at 0.43x as on March 31, 2021. The company has a healthy net-worth base of Rs 188.65 crore as on March 31, 2022 backed by prolonged operations and retention of profits in business. The debt coverage indicator of the company represented by interest coverage ratio and TDGCA ratio also remained satisfactory at 3.18x and 4.84x during FY22.

Key weaknesses**Moderate total operating income**

Despite long presence in the industry to scale of operation of the company remain moderate primarily due to lower valued products which cater to rural and semi-urban market. The TOI has almost remained muted with a marginal growth of about 12% from ₹520 crore during FY21 to ₹587 crore during FY22.

Decline in profitability margins during FY22

The profitability of the company is susceptible to volatility in prices of major raw material i.e liquid glucose, edible fats, sugar. PBILDT margin has been fluctuating during the period FY18 to FY22 however, PBILDT margin witnessed sharp decline and stood at 5.22% in FY22 vis-à-vis PBILDT margin of 9.67% in FY21 owing to volatility in raw material prices. Raw material prices such as liquid glucose, sugar, corn derived syrup, flavours as well the steep rise in the packaging material like flex which were volatile throughout the year and prices were increased during FY22. Apart from the increased input costs there was rise in marketing expenses coupled with increased power and fuels cost. This rise in the costs could not be passed on to the customers owing lower maximum retail prices (MRPs). To recover the input costs, the company tried to reduce the packaging costs as well as the reduction in the quantity by few grams which however was not accepted by the customers. The company is however expected to improve its profitability in the current year although it will continue to remain moderate.

Working capital-intensive business

The company operates in working capital intensive industry. The operating cycle of the company remained a tad elongated at 72 days during FY22 (75 days during FY21). The company offers credit period to distributors and hence the collection period remained around 69 days during FY22. Furthermore, as the company holds raw material inventory for around 30 to 40 days to ensure uninterrupted production. Because of high raw material prices, the company relied more on working capital borrowings during past few months. The average fund-based limit utilization during the last 12 months ended in December 2022 remained high at 92%.

Intense competition in confectionary industry

Prayagh faces competition from larger established companies like Amul, Cadbury, Nestle, Mars Chocolates, Ferrero, ITC Limited, etc. Most of these players have a large scale of operations, pan-India presence and strong brand positioning. Apart from these, large local and regional players have also mushroomed across the country making it more competitive at the regional levels. Hence, the biggest challenge for the industry players would be retaining and growing not only their regional presence, but also strategize to become a national level player by maintaining its quality and sales volume.

Susceptibility to maintaining quality of products and government regulations

The packaged food industry is regulated by Food Safety and Standards Authority of India (FSSAI) to ensure the quality specifications and packaging of the products. Any failure/non adherence in terms of quality specification laid down by FSSAI will

have penal implications as also a negative impact on the overall brand image of the player. Furthermore, any adverse change in policy by FSSAI may also impact the performance of the players in the industry.

Liquidity: Adequate

The liquidity position of the company is adequate marked by above unity current ratio marginally of 1.25x as on March 31, 2022. Company is generating adequate cash accruals (₹21.85 crores) against no major term debt repayment obligation. This apart, the company had free cash balance of ₹12.69 crore as on March 31, 2022 as well the net cash flow from operations remained positive and healthy at ₹49 crore as on March 31, 2022. The capex plans of the company are modular and the same will be largely funded through internal accruals.

Applicable criteria

[Policy on default recognition](#)

[Financial Ratios – Non financial Sector](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Credit Watch](#)

[Manufacturing Companies](#)

[Policy on Withdrawal of Ratings](#)

About the company

Prayagh was incorporated in December 1999 by Preetam Bhawandas Lalwani (Managing Director). The company is engaged into manufacturing of hard-boiled sugar confectionery ranging from flavored candies (including center filled) and cough drops to milk based lacto bonbons, chocolate éclairs, choco coated wafers & molded chocolates with the brand name 'Cintu' and 'Lavian' brands which are popular in south Indian region. Currently Prayagh has three unit, all of them are situated in the state of Telanagana. Unit-1 is situated in Gaganpahad, Hyderabad and Unit-2 and Unit-3 are situated in Chattanpally Village, Shadnagar. Presently, Prayagh has an installed production capacity of 40,000 MT per annum.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	H1FY23 (UA)
Total operating income	520.65	587.00	319.94
PBILDT	50.36	30.65	17.37
PAT	27.14	9.56	6.15
Overall gearing (times)	0.43	0.56	0.55
Interest coverage (times)	8.29	5.12	5.20

A: Audited UA: Unaudited

Status of non-cooperation with previous CRA: NA

Any other information: NA

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated instruments/facilities: Detailed explanation of the covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of the various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash credit		-	-	-	95.00	CARE A-; Stable
Fund-based - LT-Term loan		-	-	31.08.2027	20.00	CARE A-; Stable

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based - LT-Term loan	LT	20.00	CARE A-; Stable	1)CARE A-; Stable (13-May-22)	1)CARE A-; Stable (31-Mar-22)	1)CARE A-; Stable (15-Mar-21)	-
2	Fund-based - LT-Cash credit	LT	95.00	CARE A-; Stable	1)CARE A-; Stable (13-May-22)	1)CARE A-; Stable (31-Mar-22)	1)CARE A-; Stable (15-Mar-21)	-

*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities N.A.**Annexure-4: Complexity level of the various instruments rated**

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Cash credit	Simple
2	Fund-based - LT-Term loan	Simple

Annexure-5: Lender details

To view the lender-wise details of bank facilities please [click here](#)

Note on the complexity levels of the rated instruments: CARE Ratings 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.

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