Prayagh Nutri Products Private Limited

March 15, 2021

Ratings

Facilities/Instruments	Amount (Rs. crore)	Ratings	Rating Action
Long Term Bank Facilities	85.00	CARE A-; Stable (Single A Minus; Outlook: Stable)	Assigned
Total Bank Facilities	**85.00 (Rs. Eighty-Five Crore Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating assigned to the bank facilities of Prayagh Nutri Products Private Limited (Prayagh) takes into account experienced promoters with established track record of operations in confectionary business, established regional presence of company with owned brand 'Cintu' and 'Lavian' in candy segment, growing sales network, consistent growth in total operating income during the period FY18 to FY20 (refers to period April 01 to March 31) and 9MFY21, comfortable financial risk profile and stable industry outlook. The rating is however, tempered by fluctuating profitability margins, moderate working capital cycle, susceptibility of profitability to volatility in raw material prices, susceptibility to maintaining quality of products and government regulations and intense competition in confectionary.

Rating Sensitivities

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

- Improvement in total operating income above Rs.800 crore
- Improvement in profitability margin beyond 12% on a sustained basis

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

- Overall gearing deteriorating beyond 1.00x
- Decline in PBLDT margin below 6%
- Elongation of working capital cycle beyond 90 days

Detailed description of the key rating drivers

Key Rating Strengths

Experienced Promoters with long track record of operations

Prayagh was incorporated in December 1999 by Mr. Preetam Lalwani (Managing Director), who is a commerce graduate, and has more than two decades of experience in the field of administration, finance and marketing. He is ably supported by his son, Mr. Vinod Preetam Lalwani (Executive Director), who has completed post-graduation in food technology from Central Food Technological Research Institute (CFTRI), Mysore and has vast experience in production, quality and R&D operations in the field of sugar confectionery and chocolates. Furthermore, the company's own brand 'Cintu' and 'Lavian' are well recognized in rural parts of southern India.

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 India. Prayagh manufactures around 9 varieties of confectionary which includes candy, lollipop, choco coated wafers, jelly, toffee, eclaire, etc. At present, the brands have a market presence in about 23 Indian states, and exports to Africa, Nepal and Dubai. Out of the 23 states Prayagh has majority of its presence in Maharashtra, Tamil Nadu, Karnataka, Gujarat, West Bengal, etc. The company is expanding its presence to all parts of the country and wish to have a pan-India presence. Apart from this, the company also earn revenue through carrying out contract manufacturing for ITC Limited and Global Consumer Products Private Limited.

Growing sales network for company owned brands

As Prayagh is predominantly a regional player which operates mainly in Maharashtra, Tamil Nadu, Karnataka, Gujarat, West Bengal, etc. 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 200 distributors across India catering to products with 'Cintu' brand. Additionally, company owned brand 'Lavian' which was launched in November 2015 in Hyderabad, Telangana. The company has spread their network to over 18 states and 2 union territories within India in the last 5 years. Currently 'Lavian' has a distribution strength of close to 2700 distributors who are covering approx. 4,50,000 retail outlets. These distributors are serviced through 120 odd super stockiest who have been chosen by the sales team based on their coverage, service and investment levels.

Consistent growth in total operating income albeit fluctuating profitability margins

The total operating income (TOI) of the company has been growing at CAGR of 20.47% during the period FY18 to FY20 backed by growth in demand for confectionaries. The TOI has increased by 19% from Rs.409.56 crore during FY19 to Rs.490.35 crore during FY20.

Adding to this, as the profitability of the company is susceptible to volatility in raw material prices, PBILDT margin has been fluctuating during the period FY18 to FY20. The PBILDT margin of the company stood at 10.25% during FY18 which improved

to 11.52% during FY19 on account of improved efficiency. Thereafter, the PBILDT margin declined by 247 bps to 9.05% during FY20 on account of marketing expenses incurred for Lavian brand coupled with increased employee cost during the year. In line PBILDT margin of the company, PAT margin also declined by 245 bps from 6.79% during FY19 to 4.34% during FY20.
During 9MFY21, the company has generated revenue of about Rs.378.12 crore and the PBILDT margin and PAT margin stood at 11.03% and 6.85% respectively during the same period.

Comfortable financial risk profile

The capital structure of the company comprises of term loan, vehicle loan, working capital borrowing and unsecured loan from promoters. The overall gearing of the company is comfortable and remained in the range of 0.76x to 0.57x during the period FY18 to FY20. The overall gearing has been consistently improving over the past three years and remained below unity. The same has improved from 0.65x as on March 31, 2019 to 0.57x as on March 31, 2020 despite increase in outstanding working capital borrowing as on March 31, 2020 on account of accretion of profit to the net worth coupled with gradual repayment of term loans. However, the debt coverage indicator of the company represented by Total debt/Gross Cash Accruals (TDGCA) ratio, although remained comfortable, has deteriorated slightly from 2.28x during FY19 to 2.57x during FY20 on account of reduction in Gross Cash Accruals (GCA) level during the year due to increased marketing expenditure. Further, on account of the aforementioned reasons, the interest coverage ratio represented by PBILDT/interest has also deteriorated from 7.30x during FY19 to 5.54x during FY20.

Industry Outlook & Prospect:

The Covid-19 situation has led to strong demand for packaged foods, which is likely to continue in the near term. This had helped the companies attain healthy growth in sales in H1FY21. The production of biscuits/cookies increased by 8.1% in H1FY21 over H1FY20, as at-home consumption of food spiked during lockdown whereas the production of cakes, pastries & muffins de-grew by 25.7%. Also, the y-o-y growth rates for cakes has been declining from 2016-17.
The long-term demand outlook is favorable on expectation of increasing population, increase in per capita consumption which in turn would be driven by changing lifestyles, growing urbanization, and steadily rising affluence levels.
Moreover, due to intense competition, the mid-sized players have limited flexibility over pricing its products which also results in low to moderate profit margin. The business is also susceptible to changing preferences of consumers etc. In such a scenario, Prayagh's prospects will be driven by its ability to scale up its operations by increasing its geographical presence and improving its brand image.

Key Rating Weaknesses

Moderate working capital cycle of the company

The working capital cycle of the company is moderate and remains in the range of approx. 70 to 90 days. The operating cycle of the company improved from 77 days during FY19 to 69 days during FY20. This improvement is led by improvement in collection period from 77 days during FY19 to 72 days during FY20, though the same remained in the range of 70 to 90 days during the period FY18 to FY19. Additionally, as the company is engaged in manufacturing of confectionary items which are perishable in nature, the company only holds inventory for around 30 days round the year, hence the inventory period has remained in the range of 30 to 33 days during the period FY18 to FY20. The inventory period has slightly increased from 31 days during FY19 to 33 days during FY20. Moreover, the company also receives a credit period of around 30 to 40 days from its creditors. The average maximum working capital utilization of the company for the past 12 month ending January 2021 remained moderate at 77.81%.

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, a pan-India presence and strong brand positioning. Apart from these, large local and regional players have also mushroomed across the country which has added to competitive intensity in the industry. 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 quality standards.

Susceptibility of profitability to volatility in raw material prices

The major raw materials for manufacturing confectionaries are sugar, oil and flour. The company is exposed to price fluctuations as the supply of such agro commodities are exposed to vagaries of nature. Moreover, the prices of these commodities are dependent upon various factors including climatic conditions in the growing regions, substitutes for the crop (for farmers), government regulations for sugar pricing, as well as alternate demand drivers. Furthermore, candies and cakes being perishable in nature and having life span of 6 months to 12 months from the date of manufacturing, require more effort in selling the product before its expiry as the liability of the expired products rests with the company.

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. 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.

Liquidity: Adequate

The liquidity position of the company is adequate marked by the current ratio which stood at 1.30x as on March 31, 2020 as against 1.22x as on March 31, 2019. The company has also generated GCA of Rs.33.39 crore during FY20 and has cash balance of Rs.3.01 as on March 31, 2020. Further, the company has proposed to carry out capex of around Rs.20 crore during FY21 which will entirely be funded through internal accruals of the company. Out of the said capex around Rs.17 crore has already been incurred till February 2021. Apart from this, the company also has term debt obligation of around Rs.5.23 crore for FY21 out of which the company has already repaid around Rs.3.30 crore till December 31, 2020. Considering the past performance of the company and GCA generated during FY20, the company is expected to meet its balance term debt obligation for FY21 comfortably. Apart from this, the company did not opt for any moratorium.

Analytical approach: Standalone

Applicable criteria

Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
Rating Methodology – Manufacturing Companies
Financial ratios – Non-Financial Sector
Liquidity Analysis – Non-Financial Sector

About the company

Prayagh Nutri Products Private Limited (Prayagh) was incorporated in December 1999 by Mr. 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. The facility of the company 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. Presently, Prayagh has an installed production capacity of 30,000 MT per annum.

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	409.56	490.35
PBILDT	47.18	44.37
PAT	27.79	21.26
Overall gearing (times)	0.65	0.57
Interest coverage (times)	7.30	5.54

A: Audited

Status of non-cooperation with previous CRA: NA

Any other information: NA

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	-	-	June 2022	10.00	CARE A-; Stable
Fund-based - LT-Cash Credit	-	-	-	75.00	CARE A-; Stable

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	10.00	CARE A-; Stable	-	-	-	-
2.	Fund-based - LT-Cash Credit	LT	75.00	CARE A-; Stable	-	-	-	-

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

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.*

Contact us

Media Contact
Name – Mradul Mishra
Contact no. – +91-22-6837 4424
Email ID – mradul.mishra@careratings.com

Analyst Contact:
Name – Mr D Naveen Kumar
Tel – 040-40102030
Email – dnaveen.kumar@careratings.com

Relationship Contact
Name: Ramesh Bob
Contact no. : +91 90520 00521
Email ID: ramesh.bob@careratings.com

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