

Dharwad Mishra Pedha and Food Processing Industry (Revised)

May 25, 2023

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long Term Bank Facilities	50.00	CARE BB (RWN)	Placed on Rating Watch with Negative Implications

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

CARE Ratings Limited has placed the ratings of Dharwad Mishra Pedha and Food Processing Industry's (DMP) bank facilities on Rating Watch with Negative Implications (RWN). This is in response to material event triggered by another rating agency assigning Rating of D (Un accepted) to the firm.

CARE Ratings Limited is in the process of getting all the relevant details from DMP and its lenders and will be taking a final rating action once the clarification is received from its lenders. The material event triggered is as defined by SEBI vide circular No. SEBI/ HO/ MIRSD/ MIRSD4/ CIR/ P/ 2017/ 71 dated June 30, 2017.

Rationale and key rating drivers

At the time of last rating on March 24, 2023, the following were the key rating strengths and weaknesses

Key weaknesses

Moderate scale of operations with partnership nature of constitution: Despite being in business operations as partnership firm since 2006, along with consistent growth in past three years ending FY22, DMP scale of operations continued to remain moderate marked by total operating income of Rs. 142.12 crore in FY22.

The networth of the firm remained moderate at Rs 20.82 Crs as on March 31, 2022. The small scale limits the firm's financial flexibility in times of stress and deprives it from scale benefits. Further, being a partnership firm DMP is exposed to inherent risk of the partner's capital being withdrawn at time of personal contingency and firm being dissolved upon the death/retirement/insolvency of the partners. Moreover, partnership business has restricted avenues to raise capital which could prove a hindrance to its growth. Over the past few years, there has not been any additional fund infusion by the partners apart from adding back part of the profits.

Full utilization of working capital facility: The working capital facility sanctioned to the firm remains fully utilised for the last 12 months which leaves no headroom for any liquidity cushion in the event of any crisis. Any disruption in the industry or any untoward circumstances which leads to cash flow mismatch can adversely impact the liquidity profile of the firm.

Risk profile marked by leveraged capital structure and debt coverage indicators: The capital structure of the DMP remained leveraged as on March 31, 2012, as reflected by debt-equity ratio 1.16 times and overall gearing of 2.63 times. The total debt profile of the firm consists of working capital borrowings of Rs 24.93 crore, term loan of Rs 24.12 crore and other interest free unsecured loans from friends and relatives of Rs 5.67 crore. The networth of the firm remained moderate at Rs 20.82 crore. The total debt to Gross Cash accruals and total debt to PBILDT improved to 6.26 times and 3.25 times as on March 31, 2022 as compared to that of 13.77 times and 4.86 times as on March 31, 2021 respectively. However, the same still continues to be on a higher side.

Competition from unorganized local players and organized branded companies: The firm is engaged in manufacturing of sweets, savouries, bakery items and milk products which involves limited value addition and hence results in thin profitability. Moreover, on account of large number of units operating in similar business, there is high competition from local players in the market. Further the firm has competition from other organized players through packaged food products like Haldiram, Lays and Bingo etc. The competition among the players remains very high resulting in high fragmentation and

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

further restricts the profitability. However the firm has been in this business from a considerable time and hence they have been able to sustain their operations with improvement over the years.

Key strengths

Long track record of operations with experienced promoters: DMP was established in 2006 as a partnership firm and has established track record of the business operations. The firm has a rich legacy of more than 90 years which started as a small shop during 1933. The partners have been in the business of sweets and savouries for more than five decades. The firm sells its products through a well-established dealer network and franchise outlets across the states of Karnataka, Andhra Pradesh, Goa and Maharashtra. Mr. Sanjay Ganesh Mishra aged about 52 years has completed his Pre University Education Course and has more than 35 years of experience in the same line of business and looks after production and other operational activities. The partners are assisted by a work force of around 349 employees. The firm is in the process of scaling up their operations with foraying into other markets.

Recognized brands with an established presence in Southern market: Dharwad Pedha is a sweet delicacy, unique to the state of Karnataka, India. It derives its name from the city of Dharwad in Karnataka and has a GI tag attached to its name. The partners have been into business from 1933 and have created an own brand in the local market. As on November 30, 2022 the firm has total of 172 franchises in the states of Karnataka, Maharashtra, Goa and Andhra Pradesh.

Growth in total operating income coupled with increase in profitability margins :

Total Operating Income (TOI) of the firm has registered a Compounded Annual Growth Rate (CAGR) of ~12% during FY20-FY22 and registered a total operating income of Rs. 142.12 crore in FY22 as against Rs. 105.37 crore in FY21. There has been a consistent increase in TOI for the firm for the last few years. The increase in total operating income was backed by higher demand for the products in the domestic market. The PBILDT margin of the firm increased marginally from 11.56% in FY21 to 11.84% in FY22 on account of increased sales with lower material consumption and operating costs on account of economies of scale. The PBILDT margins have remained stable in the range from 10 to 12% over the past few years. The PAT margin of the firm remained at same level at 1.07% in FY22 despite increase in PBILDT in absolute terms due to increase in Depreciation cost.

Liquidity: Stretched

The liquidity position of the firm remained stretched with 100% utilization of their working capital facilities for the last 12 months ended October 2022. As per the management, the firm maintains cash balance of approximately two days of sales.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Increased scale of operations above Rs. 180 crore.
- Improvement in PBILDT margin on or above 12 % on sustained basis.
- Improvement in liquidity profile of the company with average working capital utilisation below 90%.

Negative factors

- Overall gearing not exceeding 3 times on sustained basis.
- Reduction in PBILDT margins below 9% on a sustained basis.

Analytical approach: Standalone

Assumptions/Covenants: Not applicable

Environment, social, and governance (ESG) risks: Not applicable

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](#)

About the company and industry

Industry classification

Macro-Economic Indicator	Sector	Industry	Basic Industry
Fast Moving Consumer Goods	Fast Moving Consumer Goods	Food Products	Other Food Products

Established in 1933, Dharwad Mishra Pedha and Food Processing Industry, a Dharwad, Karnataka-based partnership firm is engaged in manufacturing of sweets and bakery products. Dharwad was founded by Mr. Avadhbihari Mishra and currently it is being managed by its third generation Mr. Sanjay Ganesh Mishra. The firm's operations are spread across Karnataka, Maharashtra and Goa. Currently the firm has installed capacity for manufacturing of 21.25 lakh kilogram of Dharwad Pedha, 3.50 lakh kilogram of Kaju Katli, and 88 lakh kilogram of Big Bread respectively. It sells its products under the brand name 'Big Mishra Pedha'. The firm currently has 349 employees, and the day-to-day affairs of the firm are managed by the partners.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	11MFY23 (UA)
Total operating income	105.37	142.12	163.27
PBILDT	12.18	16.83	27.49
PAT	1.14	1.53	N/A
Overall gearing (times)	3.12	2.63	N/A
Interest coverage (times)	1.58	2.32	3.31

A: Audited UA: Unaudited; Note: 'the above results are latest financial results 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: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date (DD-	Size of the Issue	Rating Assigned
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		(DD-MM-YYYY)		MM-YYYY)	(₹ crore)	along with Rating Outlook
Fund-based - LT-Term Loan		-	-	Jan 2030	50.00	CARE BB (RWN)

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 2023-2024	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
1	Fund-based - LT-Bank Overdraft	LT	-	-	-	-	-	1)Withdrawn (30-Apr-20)
2	Fund-based - LT-Cash Credit	LT	-	-	-	-	-	1)Withdrawn (30-Apr-20)
3	Fund-based - LT-Term Loan	LT	50.00	CARE BB (RWN)	-	1)CARE BB; Stable (24-Mar-23)	-	-

*Long term/Short term.

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities: Not applicable

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	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.

Contact us

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About us:

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