

Madhusudan Masala Limited

April 02, 2024

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long Term Bank Facilities	12.08	CARE BB; Positive	Assigned
Long Term / Short Term Bank Facilities	42.00	CARE BB; Positive / CARE A4+	Assigned

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The ratings assigned to the bank facilities of Madhusudan Masala Limited (MML) remained constrained on account of moderate capital structure and debt coverage indicators as well as elongated operating cycle during FY23 (Audited; period refers from April 01 to March 31) and H1FY24 (Unaudited; period refers from April 01 to September 30). The ratings also consider stretched liquidity and exposure to price volatility and seasonality of raw materials.

However, the ratings derive comfort from experienced promoters having established track record of operations. The ratings also factor in company's healthy operating performance along with diversified product portfolio.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Growth in scale of operations with total operating income (TOI) of more than Rs.150 crore and sustaining PBILDT margin above 8%
- Improving capital structure marked by overall gearing ratio to below unity

Negative factors

- Decline in scale of operations with TOI below Rs. 100 crore or decline in PBILDT margin below 7% on sustained basis
- Deterioration in capital structure marked by overall gearing to above 1.5x

Analytical approach: Standalone

Outlook: Positive

Positive outlook is due to CARE Ratings expectation of sustainability of scale of operations and profit margins. Furthermore, the capital structure is also expected to improve with accretion of profits to reserves. The outlook may be revised to 'stable' in case of non-sustenance of scaled-up operations and profitability or on moderation in its leverage.

Detailed description of the key rating drivers:

Key weaknesses

Moderate capital structure and debt coverage indicators: Capital structure of MML remained moderate as marked by overall gearing of 4.01x as on March 31, 2023. However, it improved substantially and remained at 1x as on September 30, 2023, owing to proceeds received from IPO. Further, debt coverage indicators remained moderate as exhibited by interest coverage of 3.56x in FY23, improved from 2.22x for FY22 due to higher operating profits. Also, Total debt to GCA improved from 18.34 years as on March 31, 2022, to 6.64 years as on March 31, 2023, owing to higher cash accruals.

Elongated operating cycle: The operating cycle of the company stood at 91 days during FY23, (106 days during FY22). MML's raw materials are predominantly agro commodities which are seasonal in nature and are available readily only for a few months in a year requiring adequate stocking levels of raw materials leading to elongated average inventory holding days of 61 days during FY23 (PY: 66 days). The company procured raw materials from traders located in Jamnagar, which offers credit period ranging from 7-30 days to MML leading to average creditors' days of 11 days, as on March 31, 2023 (PY: 30 days).

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

Exposure to price volatility and seasonality of raw materials: MML is into processing of spices which uses chilly, turmeric, coriander, cumin and other agri-products as the primary raw material. The profitability of MML is vulnerable to fluctuations in raw material prices due to commoditized nature of the business and limited level of value addition. Furthermore, as the agro-based commodities are seasonal in nature and are available readily only for a few months in a year requiring adequate stocking levels of raw materials. The agro raw materials as required by MML are commodities and their prices are linked to the demand-supply scenario, which in turn depends upon other external factors like rainfall and international prices, thereby exposing MML's profitability to changes in raw material prices.

Key strengths

Experienced promoters with established track record of operations: Dayalji Kotecha and Vijay Kotecha had established the business in 1982 and thus have around 4 decades of experience in the spices industry. Rishit and Hiren Kotecha are the second-generation entrepreneur. Rishit Kotecha, Managing Director, have around 2 decades of experience in the industry and looks after financial, compliance and marketing activities of the company. Hiren Kotecha also has 2 decades of experience and looks after planning, operations and packaging activities of the company. The promoters are also supported by a team of experienced and trained employees.

Growing scale of operations and profitability: Operating performance of MML improved substantially marked by its scale of operations as well as profitability margins. TOI during FY23 improved by ~94% y-o-y to Rs.127.47 crore vis-à-vis Rs.65.85 crore in FY22 owing to volume growth across its product portfolio. Further, operating profitability also rose to 9.14% in FY23 from 2.81% in FY22 on account of higher sales realisation as well as lower employee cost and brokerage commissions. Also, finance charges increased sequentially due to higher utilisation of working capital limits. Owing to higher TOI and operating profitability, PAT margins also rose to 4.51% in FY23 as against 2.01% in FY22. Thereby, GCA improved to Rs.6.45 crore in FY23 (FY22: Rs. 1.57 crore).

Diversified product portfolio: MML is engaged primarily in the processing of more than 32 types of ground and blend spices, mainly chilli powder, turmeric powder and coriander powder. The company sells under the brand name of "DOUBLE HAATHI" and "MAHARAJA" across the state of Gujarat, Maharashtra and Rajasthan. MML have developed a network of more than 2100 wholesalers and more than 3700 retailers as on March 31, 2023. The company is also engaged in whole spices, Tea, other grocery product such as Rajgira Flour, Soya Chunks, Achar Masala, Rock Salt, etc.

Liquidity: Stretched

MML's liquidity position remain stretched marked by higher utilisation of working capital limits, elongated operating cycle, low cash and bank balance and negative cash flow from operations. MML's working capital limit utilisation remained high at ~80% for the past 12 months ended February 2024. Due to the nature of the business, MML is required to maintain higher inventory and thus, operating cycle remained elongated at 91 days during FY23 as against 106 days in FY22. Cash and bank balance remained low at ~Rs.0.41 crore as on March 31, 2023 (Rs.0.24 crore as on March 31, 2022). Further, cashflow from operations remained negative at ~Rs.8.99 crore in FY23 on account of increase in receivables and inventories due to higher scale of operations as well as on account of advance payment to supplier and lower creditors. However, GCA for FY23 remained at ~Rs.6.45 crore which is sufficient to repay debt of ~Rs.0.91 crore in FY24.

Assumptions/Covenants: Not Applicable

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

Applicable criteria

[Definition of Default](#)

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

[Rating Outlook and Rating Watch](#)

[Manufacturing Companies](#)

[Financial Ratios – Non financial Sector](#)

[Short Term Instruments](#)

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

Madhusudan Masala Limited was formally established as Madhusudan & Co. (a partnership firm) since 1982 by Dayalji Kotecha and Vijaykumar Kotecha. Rishit Kotecha and Hiren Kotecha, second-generation entrepreneur joined family business since last two decades. Further, Madhusudan & Co. was converted into private limited company in December 2021, which later became a public company in 2023. Jamnagar (Gujarat) based MML is engaged in the business of manufacturing and processing of more than 32 types of Spices under the brand names of "DOUBLE HATHI" and "MAHARAJA". The company also sells products like: Whole Spices, Tea and Other Grocery Products like: Rajgira flour, Papad, Soya Products, Asafoetida (Hing), Achar masala (Ready to make pickle powder), Sanchar (Black salt powder), Sindhalu (Rock salt powder), Katlu powder (Food supplement), Kasuri Methi (Dry fenugreek) etc. Installed capacity to process chilli powder, Turmeric powder and Coriander powder/Blend spices are 2400 MT, 1200 MT and 1200 MT respectively. MML's manufacturing facilities are accredited with ISO 9001:2015 for quality management system, ISO 22000:2018 for Food Safety Management System, HACCP for Hazard Analysis Critical Control Points and with FSSAI license under Food Safety and Standards Act 2006. During September 2023, MML came up with IPO to raise Rs.23.8 crore and got listed on NSE SME (NSE Emerge) platform.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	H1FY24 (UA)
Total operating income	65.85	127.47	54.40
PBILDT	1.85	11.65	5.95
PAT	1.33	5.75	3.31
Overall gearing (times)	70.08	4.01	1.00
Interest coverage (times)	2.22	3.56	5.19

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 (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Term Loan		-	-	28/02/2031	12.08	CARE BB; Positive
Fund-based - LT/ ST-Cash Credit		-	-	-	42.00	CARE BB; Positive / CARE A4+

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/ST-Cash Credit	LT/ST	42.00	CARE BB; Positive / CARE A4+				
2	Fund-based - LT-Term Loan	LT	12.08	CARE BB; Positive				

LT: Long term; LT/ST: 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
2	Fund-based - LT/ ST-Cash Credit	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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About us:

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