

## Paramesu Biotech Private Limited

September 20, 2024

Facilities/Instruments	Amount (₹ crore)	Rating <sup>1</sup>	Rating Action
Long Term Bank Facilities	223.66 (Reduced from 229.50)	CARE BBB+; Stable	Revised from CARE BBB; Positive

Details of instruments/facilities in Annexure-1

### Rationale and key rating drivers

The revision in the rating assigned to the bank facilities of Paramesu Biotech Private Limited (PBPL) reflects consistent improvement in the financial performance over the past four years ended FY24 (FY refers to April 01 to March 31) with further improvement shown in the 5MFY25 (UA) performance, healthy operational performance while regular addition in the capacities, timely completion of the large sized expansion capex which started generating cash flows. Further, PBPL also benefits from the diverse product portfolio having wide industry application and reputed client base.

Rating also takes into account the cost saving measures, such as installation of co-generation power setup which is expected to decrease the power cost starting from FY25, and thus improve the profitability in short to medium term, experienced promoters in maize processing, location advantage, adequate liquidity and favorable industry growth prospects.

However, the rating strengths are partially offset by moderately leveraged capital structure, maize prices being susceptible to vagaries of nature and competition from other large sized players in the industry.

### Rating sensitivities: Factors likely to lead to rating actions.

#### Positive Factors

- TOI increasing to above Rs 900 crore while improving ROCE above 25% and sustaining the PBILDT margins at 10% above.
- Improving capital structure with Overall gearing at 0.75x or below, on a sustained basis.

#### Negative Factors

- Deterioration in total outside liabilities/Tangible net worth (TOL/TNW) beyond 2.25x
- Significant elongation in the operating cycle beyond 100 days on a sustained basis adversely impacting the company's liquidity profile.

### Analytical approach: Standalone

### Outlook: Stable

The 'stable' outlook is in the view of experienced promoters having established track record of operation in the maize processing industry. And expected to maintain healthy operational performance while maintaining the financial risk profile

### Detailed description of the key rating drivers:

#### Key Strengths

#### Comfortable operational performance and steady growth in total operating income (TOI) with improved profitability margins

The company has been regularly adding the capacity and the overall operational performance remained healthy marked with capacity utilization at around ~90% in FY24. Healthy utilization is backed by higher demand for starch from diverse industries like food, paper, pharma, FMCG and others. Despite correction in the maize prices, the increase in volumes coupled with better management of spread between corn starch prices and maize prices resulted in marginal growth in TOI during FY24. The company witnessed higher demand for corn starch and its derivative products, during FY24, this apart the company has added two new derivative products in its product portfolio which has fetched better margin from international and domestic market, resulting higher profits in FY24. The profit margins have improved backed by better management of spread, and stands comfortable, the

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careedge.in](http://www.careedge.in) and other CARE Ratings Ltd.'s publications

company reported a PBILDT margin of 11.90% during FY24 as against 9.24% during FY23. The PAT margin was inline with PBILDT and stands at 6.05% in FY24 compared to 5.20% in FY23.

#### **Diverse and reputed client base from various industries**

Starch and its derivative products find application in diverse industrial and commercial application such as food & drink (confectionaries), paper & board, personal care & pharmaceuticals, textile, FMCG, animal and pet foods etc. Hence, business prospects of the company does not depend on a single end user industry thereby providing revenue flexibility. The clientele of the company is reputed and includes companies like ITC Limited, Emami Paper Mills Limited, Prayagh Consumer Care Pvt Ltd, JK Paper Limited etc, among others. The company has a large and diverse customer base with top 10 clients contributing about 26% of total operating income in FY24. (20% in FY23).

#### **Successful commissioning of its expansion project**

The company has successfully completed its expansion plan for setting up new unit for maize/corn crushing for producing Malto Dextrin Powder (MDP) and Liquid Glucose (LG) from starch with a total project cost of ~₹ 116 crore funded through 73% of debt, 27% from its internal accruals. It is located at its existing manufacturing unit at West Godavari of Andhra Pradesh. The commercial operation started from September 2023, and the current capacity of the new plant is 300 TPD, with a total combine capacity of 800 TPD. Further, with ramp up of the new capacity commissioned in the mid of FY24, the revenue is expected to increase in the projected period.

#### **Experienced promoters and qualified management**

PBPL is promoted by Mr. Upendra Reddy Tetali and Mr. Ananda Swaroop Adavani. Mr. Upendra Reddy Tetali is the chairman & director of the company (master's degree in electrical engineering) having more than three decades of industry experience. Mr. Ananda Swaroop Adavani is the Managing Director of the company with more than a decade expertise in maize starch industry. Mr. Ananda is actively involved in day-to-day operations of the company. Furthermore, the promoters are ably supported by a team of qualified professionals down the line.

#### **Satisfactory operating cycle despite working capital intensive business**

The company operates in a working capital-intensive industry where inventory holding normally remains high. Nevertheless, the operating cycle has been satisfactory in the range of to 41-60 days in the last 3 years ended FY24, due to better prudent inventory management, resulting in favourable inventory holding days of 48 days in FY24 from 39 days in FY23. The basic raw material required for the company is maize, which is a seasonal crop, and needs to be procured adequately until next season, therefore, inventory management is a vital factor to ensure uninterrupted production. The company generally builds raw material inventory during the procurement season and also maintains a buffer of 1-2 months during off-season. Furthermore, given strong clientele, the collection was also faster as evident from comfortable receivable of 1 month in FY24. PBPL also enjoys 15 -20 days of credit period from traders. Accordingly, the average working capital utilization remained moderate at around 75% during the last 12 months ended August 2024.

#### **Locational advantage**

Corn/Maize is the major raw material that is used in manufacturing maize starch along with other by-products such as Gluten, Fiber and Germ. PBPL procures most of its raw material from local traders located in East Godavari, West Godavari, Vijayanagaram and Srikakulam districts of Andhra Pradesh. The company also procures from Khammam, Bihar and Odisha to increase its spread with respect to availability. In India, Maize is grown throughout the year. Almost all the maize requirement for 6-7 months (Mid-March to Mid-October) is procured within the radius of 50 Km. from the factory. For the remaining months, maize is procured from Khammam district which is the neighbouring district within vicinity of 70-80 KM. The plant is situated near to the maize growing belt which provides better access to the raw materials.

#### **Stable industry outlook**

India corn starch market is expected to reach a volume of 8.5 Million Tons by 2026 and is estimated to grow at a CAGR of 4% during 2020-2025. India Corn Starch market growth can be attributed to the easy availability of corn and its wide range of applications in various industries such as food and beverage, pharmaceutical, animal feed, textile industry, paper industry, and others. The Food and Beverage industry dominated the application segment of India Corn Starch Market. The rapid growth of population, as well as rapid industrialization, has propelled the growth of India corn starch market. The wide application of corn starch in a variety of industries can propel the growth of the India corn starch market during the forecast period 2020-2025.

### **Liquidity: Adequate**

The liquidity position of the company stands adequate with sufficient cash accruals to meet its debt repayment obligation. The average working capital utilization was also moderate at 75% for the last 12 months ended August 2024 providing cushion to liquidity. Liquidity is further supported by above unity current ratio of 1.12x along with positive cash flows from operating activity as on March 31, 2024.

### **Key Weaknesses**

#### **Moderately leveraged capital structure**

The capital structure marked by overall gearing has remained inline and stood moderately leveraged at 1.42x as on March 2024, as compared to 1.31x as on March 31, 2023, majorly due to increase in debt levels towards the capex along with increasing working capital needs. Moreover, the company overall gearing stands better than CARE's estimation in the last review. The capital structure is expected to improve from March 2025 at the back of absence of any debt funded capex and repayment commencing from October 2024. The TOL/TNW remained inline and stood moderate at 1.79x with total debt to GCA at 4.09x as on March 2024. Also, with growing scale of business, the working capital requirements is expected to increase, going forward.

#### **Volatility in maize prices**

The maize prices remain volatile on account of various factors including fluctuations in minimum support prices (MSP) by the government, actual production levels, inflation, growth in the economy, demand supply scenario etc. Maize is mainly a rain fed kharif crop which is sown just before the onset of monsoon and is harvested after retreat of the monsoon. Cost of Maize remains high for the kharif crop where harvesting starts from mid-October. The MSP for FY24 (Kharif crop season) stands around Rs.2090/quintal which has marginally increased from FY23's MSP of Rs.1962/quintal. Thus, the profitability of the company is exposed to vagaries of nature and fluctuation in input prices

#### **Seasonality associated with agri based products and competitive industry**

The prices of agriculture commodities are highly volatile depending on production yield, demand of the commodities and vagaries of weather. Hence, profitability is exposed to vulnerability in prices of agriculture commodities. Furthermore, the industry is highly fragmented and competitive in nature as evident by the presence of numerous unorganized and few organized players. The entry barriers in this industry are very low on account of low capital investment and technological requirement. Due to this, the players in the industry do not have any pricing power. Further, the industry is characterized by high degree of government control both in procurement and sales for agriculture commodities.

#### **Assumptions/Covenants: NA**

#### **Environment, social, and governance (ESG) risks: Nil**

#### **Applicable Criteria**

[Definition of Default](#)

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

[Rating Outlook and Rating Watch](#)

[Manufacturing Companies](#)

[Financial Ratios – Non financial Sector](#)

#### **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

Paramesu Biotech Private Limited (PBPL) was incorporated on September 7, 2011, by Mr Upendra Reddy Tetali and Mr Ananda Swaroop Adavani. However, the commercial operation started from 2015, and since then Mr Upendra Reddy Tetali and Mr Ananda Swaroop Adavani are involved in day-to-day affairs of the company. Both are family members, and the directors of the company. PBPL is primarily engaged in maize/corn crushing to produce corn starch and various other by-products such as gluten, fiber and germ. Maize starch finds applications in various industries such as food processing, paper making, corrugated box adhesive,

clothing starch in textile industry and pharmaceutical. The present installed capacity of the plant to produce native corn starch is 800 TPD. The company operates through its manufacturing facility located at Devarapalli Mandal, West Godavari District, Andhra Pradesh.

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (P)	5MFY25 (P)
Total operating income	624.93	631.67	334.85
PBILDT	57.73	75.19	44.45
PAT	32.52	38.22	23.35
Overall gearing (times)	1.31	1.42	1.22
Interest coverage (times)	6.75	4.93	5.12

A: Audited P: Provisional; 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

**Detailed explanation of covenants of rated instrument / facility:** Annexure-3

**Complexity level of 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 and Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	120.00	CARE BBB+; Stable
Fund-based - LT-Term Loan		-	-	September 2031	103.66	CARE BBB+; Stable

**Annexure-2: Rating History of 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 2024-2025	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
1	Fund-based - LT-Term Loan	LT	103.66	CARE BBB+; Stable	-	1)CARE BBB; Positive (24-Jul-23) 2)CARE BBB; Positive (06-Jul-23)	1)CARE BBB; Positive (07-Jul-22)	1)CARE BBB; Stable (15-Mar-22)
2	Fund-based - LT-Cash Credit	LT	120.00	CARE BBB+; Stable	-	1)CARE BBB; Positive (24-Jul-23) 2)CARE BBB; Positive (06-Jul-23)	1)CARE BBB; Positive (07-Jul-22)	1)CARE BBB; Stable (15-Mar-22)

LT: Long term.

**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

**Annexure-5: Lender details**

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

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