Prayagh Nutri Products Private Limited

March 31, 2022

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	85.00	CARE A-; Stable (Single A Minus; Outlook: Stable)	Reaffirmed
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) continues to derive strength from the 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 FY19 to FY21 (refers to period April 01 to March 31), comfortable financial risk profile and stable industry outlook.

The strengths are however partially offset 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 by 15% on a sustained basis
- Improvement in profitability margin beyond 11% on a sustained basis

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

- Overall gearing deteriorating beyond 1.00x
- 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 earns 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.

Stable total operating income and profitability margins during FY21

The TOI has almost remained stable exhibiting marginal growth of about 3% fom Rs.490.35 crore during FY20 to Rs.515 crore during FY21. The company derives majority of revenue through direct sales which contributes to around 96% of total sales during FY21. Revenue generation via contract manufacturing accounts for about 4% of the total sales.

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

As the profitability of the company is susceptible to volatility in raw material prices, PBILDT margin has been fluctuating during the period FY18 to FY21. The PBILDT margin of the company stood at 8.66% during FY21 exhibiting slight moderation about 39 bps compared to FY20. The PBILDT margin declined on account of increase in marketing expenses coupled with increased employee cost during the year. However, the PAT margin has improved by 93 bps from 4.34% during FY20 to 5.27% during FY21.

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 has improved from 0.57x as on March 31, 2020 to 0.43x as on March 31, 2021 on account of accretion of profit to the net worth coupled with gradual repayment of term loans. The debt coverage indicator of the company represented by TDGCA ratio, although remained comfortable, has also improved slightly from 2.57x during FY20 to 2.17x during FY21 on account of reduction in debt level during the year. Further, on account of the aforementioned reason, the interest coverage ratio i.e. PBILDT/interest has also improved from 5.54x during FY20 to 7.34x during FY21.

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 has remained comfortable at 75 days during FY21 (69 days during FY20). The collection period also has remained stable at 75 days during FY21 (72 days during FY20), though the same remained in the range of 70 to 90 days during the period FY18 to FY21. Furthermore, as the company is engaged in manufacturing of confectionary items which are perishable in nature, the company only holds inventory for around 30 to 40 days round the year, hence the inventory period has remained in the same range during the period FY18 to FY21. 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 February 2022 remained moderate at about 72%.

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 1.38x as on March 31, 2021 as against 1.30x as on March 31, 2020. The company has also generated GCA of Rs.35.60 crore during FY21. Further, the company has proposed to carry out capex of around Rs.50 crore during FY22 which is funded through equity of Rs. 12 crore, debt of Rs. 20 crore and remaining is funded through internal accruals. Apart from this, the company also has term debt obligation of around Rs. 5.30 crore for FY22. Considering the past performance of the company and GCA generated during FY21, the company is expected to meet its balance term debt obligation for FY22 and FY23 comfortably.

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)	31-03-2020 (A)	31-03-2021 (A)	9MFY22 (UA)
Total operating income	490.35	514.89	NA
PBILDT	44.37	44.60	NA
PAT	21.26	27.14	NA
Overall gearing (times)	0.57	0.43	NA
Interest coverage (times)	5.54	7.34	NA

A: Audited

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 for this company: Annexure 4

Annexure-1: Details of Instruments / Facilities

Name of the Instrument	ISIN	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 22	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 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Fund-based - LT-Term Loan	LT	10.00	CARE A-; Stable	-	1)CARE A-; Stable (15-Mar-21)	-	-
2	Fund-based - LT-Cash Credit	LT	75.00	CARE A-; Stable	-	1)CARE A-; Stable (15-Mar-21)	-	-

* Long Term / Short Term

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities – Not available

Annexure 4: Complexity level of various instruments rated for this company

Sr. No	Name of instrument	Complexity level
1	Fund-based - LT-Cash Credit	Simple
2	Fund-based - LT-Term Loan	Simple

Annexure 5: Bank Lender Details for this Company

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.

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With an established track record of rating companies over almost three decades, we follow a robust and transparent rating process that leverages our domain and analytical expertise backed by the methodologies congruent with the international best practices. CARE Ratings Limited has had a pivotal role to play in developing bank debt and capital market instruments including CPs, corporate bonds and debentures, and structured credit.

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