Patanjali Ayurved Limited (Revised)

October 04, 2019

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long term Bank Facilities	1112.15 (reduced from 1712.15)	CARE A- (Single A Minus) (Credit watch with Developing Implications)	Revised from CARE A+; Stable (Single A Plus; Outlook Stable)
Short term Bank Facilities	550.00	CARE A2+ (A Two Plus) (Credit watch with Developing Implications)	Revised from CARE A1 (A One)
Long-term/Short-term Bank Facilities- Non-fund based	-	-	Revised to CARE A-/ CARE A2+ (Single A Minus/ A Two Plus) (Credit watch with Developing Implications) from CARE A+; Stable/ CARE A1 (Single A Plus ; Outlook Stable/A One) and Withdrawn*
Long-term/Short-term Bank Facilities- Fund-based	673.33	CARE A-/ CARE A2+ (Single A Minus/ A Two Plus) (Credit watch with Developing Implications)	Revised from CARE A+; Stable/ CARE A1 (Single A Plus ; Outlook Stable/A One)
Total	**2335.48 (Rs. Two Thousand Three Hundred and Thirty Five Crore and Forty Eight Lakhs only)**		

Details of facilities in Annexure-1

**At the request of the company vide email dated September 16, 2019 along with 'No Objection Certificate' availed from one of the bank, we hereby withdraw the outstanding rating(s) assigned to the LT/ST non-fund based bank facility of your company with immediate effect.*

Detailed Rationale & Key Rating Drivers

The revision in the ratings of the bank facilities of Patanjali Ayurved Limited (PAL) take into account expected weakening of its financial risk profile on account of large outflow of funds from PAL to Patanjali Consortium Adhigrahan Private Limited (PCAPL; Special Purpose Vehicle created for the purpose of acquisition of Ruchi Soya Industries Limited (RSIL)). As per NCLT order, the total acquisition cost is likely to be Rs 4350 crores, as against PAL's net worth of Rs. 2873 cr. as on March 31 2019. The order states that the fund infusion from PAL in the SPV shall be in form of Non-convertible Debentures and Preference shares aggregating Rs. 900 crore and further equity infusion from the group is to the extent Rs 204.75 crore (which at an aggregate level is much larger than the earlier committed amount of Rs 100 crores by PAL). The revision also factors in PAL's higher exposure by way of loans and advances/equity investments to the group entities. PAL continues to be the largest corporate entity in the Patanjali group and hence a sizable load of the RSIL acquisition (excluding debt from banks) will be borne by the PAL balance sheet.

The ratings, however, continue to derive strength from the market position of PAL supported by its established brand position, its widespread retail distribution network, diversified product portfolio and experienced management team. CARE also factors in the company's efforts to further enhance its overall business profile by focussing more on the launch of new products, product development efforts & improvement in its internal efficiency as well as its existing product portfolio to counter competitive pressures.

Further, CARE has placed the ratings on "Credit Watch with Developing Implications" on account of the sizable RSIL acquisition of Rs 4,350 crores, which constitutes 151% of PAL's net worth as on March 31, 2019. PAL is not expected to provide a Corporate Guarantee or Letter of Comfort for the debt that is being raised to fund the RSIL acquisition. The funding pattern of raising Rs 900 crore to be infused into the SPV by PAL for acquisition of RSIL remains to be seen. The SPV is in process of obtaining final sanctions for raising debt from banks to fund the acquisition of RSIL. CARE will continue to monitor the developments in this regard and will take a further view on the ratings once the exact implications of the acquisition of RSIL on the credit risk profile of PAL are clear.

Going forward, PAL's ability to sustain its favourable brand image and leveraging on the same to grow its operations profitably, manage its debt coverage indicators within a balanced capital structure, utilize its working capital efficiently, the outcome of the on-going investigation on the promoters along with linkages and integration of RSIL with Patanjali group would be key rating sensitivities.

[1]*Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*

Detailed description of the key rating drivers
Key Rating Strengths
Well-diversified product portfolio: Over the years, PAL is continuously increasing its products and currently includes more than 2500 products across various segments. PAL has a well-diversified product portfolio providing the entire range of FMCG and Ayurvedic products. Given the substantial increase in scale of operations, the company has gone for contract manufacturing as well as trading of products being sold under 'Patanjali' brand.

Wide-spread distribution network: The products of the company are made available to consumers through an extensive network of Authorized Patanjali Stores and retails shops. At present, the company has more than 2,00,000 counters, ~8,000 distributers, Warehouses in 18 states and has proposed factories in 6 states, having various sales channel partners including, Pittie Group, Future Group, Reliance Retail, Hyper City, Star Bazaar and Shubhkart Chain. The Company also sells directly to end consumers through more than 100 Patanjali Mega Stores.
Further, the company has marketing tie up with various Government stores viz. Canteen Stores Department, Central Police Canteen etc. where company supplies its products in bulk. The Company has also its own online sale portal (www.patanjaliayurved.net).In addition to the above, there are more than 1,500 Patanjali Chikitsalaya, 5,000 Patanjali Arogya Kendra and 25,000 Swadeshi Kendra.

Experienced management team*:* PAL is promoted by Acharya Balakrishna who has 20 years of experience in promoting yoga and other Ayurvedic products across the country. He is ably supported by an experienced group of management personal at various levels of the organizations having substantial experience in the industry.

Established brand: 'Patanjali' has established itself as a well-established brand among the masses. The 'Patanjali' brand also benefits commensurately from being associated with Swami Ramdev as the brand ambassador.

Financial Risk Profile: In FY19, the total operating income of the company stood at around Rs 8528 crore (PY: Rs 8152 crore), which witnessed an increase of over 5% and the PBILDT margins improved to 10.23% (PY: 9.18%). The PAT margins, however, remained on a similar level at 4.10% in FY19 (PY: 4.20%).

Key Rating Weaknesses
Acquisition of RSIL and expected increase in fund outflow from PAL: As per NCLT order, the Patanjali group's resolution plan for RSIL has been approved. The infusion of funds shall be as follows:

Particulars	**Amount (Rs Crore)**
Equity infusion by Resolution Applicant* in SPV	204.75
NCDs subscribed by PAL in SPV	450.00
Pref Shares by PAL in SPV	450.00
New borrowings in SPV	3,233.36
Providing counter guarantee/ 100% margin	11.89
Total Sources of Fund	**4350.00**

*Patanjali Ayurved Limited, Divya Yog Mandir Trust, Patanjali Parivahan private Limited and Patanjali Gramudyog Nyas (collectively referred as Resolution Applicant)

The Group proposes to infuse around Rs. 1,105 Crore in PCAPL as promoter contribution towards acquisition of RSIL. It also proposes to raise new borrowings of around Rs. 3,233 crore in PCAPL. The Group has already paid Rs. 50 Cr towards Earnest Money Deposit (EMD) and additional Rs. 150 Cr towards performance deposit as part of NCLT process out of the aforesaid requirement for equity infusion.
The overall gearing is envisaged to increase in case PAL avails debt for acquisition of RSIL. It may impact the capital structure and debt coverage indicators and shall be critical for the credit profile of PAL.

Support to group entities: The group entities are an integral part of the business operations of PAL. After the adjustments for the equity investments, loans and advances to related parties and corporate guarantees, the overall gearing stood at 1.08 times as on March 31, 2019. Any further increase in investments to support the group entities including PCAPL may have an adverse impact on the credit profile of PAL.

Strong dependence on the promoters' image: The brand, "Patanjali" is highly dependent on the personal image of Swami Ramdev and Acharya Balkrishna among the common public. There is an on-going Central Bureau of Investigation (CBI) case on the promoter, Shri Acharya Balkrishna which was filed in 2012. Although, over the years, there has been no major findings or developments in the said case; however, the company remains exposed to the outcome of the legal proceedings and would be key for the credit profile of PAL going ahead.

Intense competition from other drugs, pharmaceuticals and FMCG products: The product range of PAL faces stiff completion from other FMCG companies which are also in the business of food products, juices and cosmetic products. Also, the Ayurveda and herbal products of Patanjali are subject to intense competition from other ayurvedic as well as allopathic and related drugs produced by pharmaceutical companies.

Liquidity: Adequate
The liquidity position of the company is adequate with current ratio of 1.22 times as on March 31, 2019. The company has an elongated operating cycle of 103 days for FY19. As per financials for FY19 (A), the debt repayments due for FY20 are Rs 153.49 crore. Furthermore, the free cash and cash equivalents witnessed a sharp decline to ~ Rs 27 crore from ~Rs 41 crore as on March 31, 2018.

Analytical approach: Standalone

Applicable Criteria
Criteria on assigning Outlook and credit watch to Credit Ratings
Policy on Withdrawal of ratings
CARE's Policy on Default Recognition
Criteria for Short-term Instruments
CARE's Methodology for manufacturing companies
Financial Ratios – Non Financial Sector
Rating Methodology: Factoring Linkages in Ratings

About the Company
PAL is the flagship company of the Patanjali group and is involved the manufacturing and trading of FMCG, herbal and ayurvedic products. PAL was established in 2006 as a private limited company and subsequently converted into a public limited company in 2007. PAL broadly has seven manufacturing units with three of them located in Haridwar, a peas processing plant in Uttarakhand, a Dairy plant in Newasa, Ahmednagar, rice processing plant in Sonipat Haryana and an industrial undertaking in Assam (Tezpur) for manufacturing of its products. The retail sale of these products being done through Patanjali Arogya Kendra, Patanjali Chikitsalya, Swadeshi Kendra and more than 2,00,000 retail outlets spread across the country. Further, the group is in process to establish food parks at various states to support the growing business while diversifying the product portfolio and having proximity to key raw materials as well as increasing penetration to the markets. PAL sells its brand under the 'Patanjali' brand. Patanjali group is acquiring 'Ruchi Soya Industries Limited (RSIL)'under NCLT through a new SPV company, "Patanjali Consortium Adhigrahan Pvt. Ltd. (PCAPL)". PAL intends to sign for a take or pay arrangement with RSIL as per mutually agreed terms.

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	8152	8528
PBILDT	748	872
PAT	342	349
Overall gearing (times)	1.12	0.81
Interest coverage (times)	4.16	3.57

A: Audited
Figures are rounded off to nearest decimal place

Status of non-cooperation with previous CRA:
PAL has not cooperated with ICRA which has classified it as issuer not cooperating vide Press release dated April 18, 2019.

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

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-Cash Credit	-	-	-	570.00	CARE A- (Under Credit watch with Developing

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
					Implications)
Non-fund-based - LT/ ST-BG/LC	-	-	-	0.00	Withdrawn
Fund-based - LT-Term Loan	-	-	March 2025	542.15	CARE A- (Under Credit watch with Developing Implications)
Fund-based - ST-Working Capital Demand loan	-	-	-	550.00	CARE A2+ (Under Credit watch with Developing Implications)
Fund-based - LT/ ST-Working Capital Limits	-	-	-	673.33	CARE A- / CARE A2+ (Under Credit watch with Developing Implications)

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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - LT-Cash Credit	LT	570.00	CARE A- (Under Credit watch with Developing Implications)	1)CARE A+; Stable (05-Apr-19)	1)CARE AA-; Negative (25-Jun-18)	1)CARE AA-; Stable (09-Mar-18)	1)CARE A+; Stable (27-Mar-17)
2.	Non-fund-based - LT/ ST-BG/LC	LT/ST	-	-	1)CARE A+; Stable / CARE A1 (05-Apr-19)	1)CARE AA-; Negative / CARE A1+ (25-Jun-18)	1)CARE AA-; Stable / CARE A1+ (09-Mar-18)	1)CARE A+; Stable / CARE A1 (27-Mar-17)
3.	Commercial Paper	ST	-	-	-	-	1)Withdrawn (06-Mar-18)	1)CARE A1 (27-Mar-17)
4.	Fund-based - LT-Term Loan	LT	542.15	CARE A- (Under Credit watch with Developing Implications)	1)CARE A+; Stable (05-Apr-19)	1)CARE AA-; Negative (25-Jun-18)	1)CARE AA-; Stable (09-Mar-18)	-
5.	Fund-based - ST-Working Capital Demand loan	ST	550.00	CARE A2+ (Under Credit watch with Developing Implications)	1)CARE A1 (05-Apr-19)	1)CARE A1+ (25-Jun-18)	1)CARE A1+ (09-Mar-18)	-
6.	Fund-based - LT/ ST-Working Capital Limits	LT/ST	673.33	CARE A- / CARE A2+ (Under Credit watch with Developing Implications)	1)CARE A+; Stable / CARE A1 (05-Apr-19)	1)CARE AA-; Negative / CARE A1+ (25-Jun-18)	1)CARE AA-; Stable / CARE A1+ (09-Mar-18)	-

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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About CARE Ratings:

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