January 31, 2022 Revised

Prataap Snacks Limited: Rating reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund based- Cash Credit	-	98.00	[ICRA]A+ (Stable); assigned
Unallocated	58.00	2.00	[ICRA]A+ (Stable); reaffirmed
Total	**58.00**	**100.00**	

**Instrument details are provided in Annexure-1*

Rationale

The rating reaffirmation continues to take into account the diversified product portfolio of Prataap Snacks Limited (PSL), which includes a wide range of snacks, flavours and stock keeping units (SKUs) addressing a large consumer base. The rating also draws comfort from the integrated sales and distribution network with more than 240 super stockists and more than 4,300 distributors, ensuring effective market penetration across India. ICRA favourably factors in the strategic location of PSL's manufacturing facilities across India, which has facilitated lowering logistics cost, de-risking from concentration in one facility, reducing transit time and improving service rate. The rating also factors in the company's lightly leveraged capital structure, healthy debt coverage indicators, robust liquidity and inherently low working capital intensity. Moreover, the rating continues to derive support from the experience of the promoters in the snack food industry.

During FY2021 and H1 FY2022, PSL faced headwinds from the ongoing Covid-19 pandemic and the resultant halt in operations owing to the Government-mandated nationwide lockdown. Moreover, the margins have been under further pressure due to substantial increase in input costs, mainly primary packing material and edible oil (palm oil). The company's return metrics have been weak over the last few years. ICRA also notes the intense competition in the snacks business from large multinationals as well as regional players. Being present in the small sized pack segment, which consumers typically buy on impulse, it is challenging for the company to pass on the increase in raw material prices amid intense competition. ICRA also notes that there has been a major fire incident in PSL's Kolkata manufacturing unit in November 2021, which would result in a one-time loss during the current financial year, the insurance claim for which in under process.

The Stable outlook reflects ICRA's expectation that PSL will continue to benefit from the experienced management team, diversified product portfolio designed as per the taste of Indian consumers and PSL's expanding geographical presence across India. Recent approval for capex under the Production Linked Incentive (PLI) scheme and steady demand for packaged foods driven by urbanisation, changing lifestyles/customer preferences, and favourable demographics augur well for PSL's business.

Key rating drivers and their description

Credit strengths

Extensive experience of promoters – The promoters of PSL have more than two decades of experience in the snack food industry and manage the day-to-day operations in the business. The company commenced operations in trading snack foods from 2003 and, subsequently, began its manufacturing operations from 2007. Over the years, PSL has been expanding its product portfolio and increasing its presence across the country under the leadership of its chairman, Mr. Arvind Mehta, and managing director, Mr. Amit Kumat.

Strong distribution network – PSL has a strong supply chain and integrated sales and distribution network of more than 240 super stockists and more than 4,300 distributors ensuring effective market penetration. The company has a strong presence in the market where it operates. The company has been realigning its network to a two-layer distribution model from a three-layer one to optimise distribution costs.

Well-diversified product portfolio – PSL has a well-diversified product portfolio with over 100 stock keeping units (SKU) across four segments, including a wide range of savoury and sweet food items, flavours and SKUs addressing a large consumer base. Within the snacks category, the company offers chips, extruded snacks, pellets and sweet snacks. The company sells products under three brands, namely Yellow Diamond, Avadh and Rich Feast.

Strategically located manufacturing facilities – PSL has manufacturing facilities across India, which has enabled it in lowering logistics cost, de-risking from concentration in one facility, lowering transit time and improving serve rate, i.e., availability of products closer to delivery schedule. The company has also increased focus on the asset-light model to keep the low reliance on external debt. The company has seven owned manufacturing facilities and eight contract manufacturing facilities. It will be incurring further expansion in line with the recent PLI approval it has received.

Comfortable debt coverage and strong liquidity position – PSL's modest working capital intensity of business and low reliance on external debt have resulted in low gearing of 0.1 time and TOL/TNW of 0.4 time as on March 31, 2021. The coverage metrics have remained strong as reflected by total debt/OPBDITA of 0.9 time and interest coverage of 10.1 times in FY2021. In addition, PSL has a strong liquidity profile, characterised by sizeable cash and liquid investment balances, and adequate undrawn working capital limits.

Credit challenges

Pressure on margins and return metrics – PSL's revenue and profitability declined during FY2021 and H1 FY2022 due to Covid-19 related lockdowns as well as closure of schools/ colleges, which are part of key catchments for its products. The profitability margins also declined due to continued rise in input costs, particularly primary packaging (films) and edible oil, under absorption of overheads and its inability to pass on the rise in input cost to customers. The company also acquired Avadh Snacks Private Limited in FY2019. Pending substantial improvement in returns from the same and the impact of the pandemic on PSL's performance, its return metrics have remained weak over the last few years. ICRA notes the company's efforts towards cost rationalisation such as process reengineering, change in the distribution model and optimising product sizes. In FY2022, the company is likely to bear the loss associated with fire in its Kolkata unit, the insurance claims towards which are under process.

Volatility in margins associated with seasonality of raw materials – PSL's major raw material include refined palm oil, potatoes, rice, corn and gram with all being agricultural products. Dependency on monsoons and weather conditions, exposes the company's margins to fluctuations in raw material prices. The same has resulted in contraction of margins to 5.5% in FY2021 and 5.4% in H1 FY2022 from 6.8% in FY2020.

Exposure to competition – PSL operates in the food industry, wherein it faces competition from large multinationals and local/regional players and in turn, is exposed pricing pressure. Having a moderate brand presence and operating in the small sized pack segment, which consumers typically buy on impulse, it is challenging for the company to pass on the increase in raw material prices amid intense competition.

Liquidity position: Strong

PSL's liquidity profile remains **strong** as reflected by sizeable cash and bank balances of about Rs. 103 crore as on September 30, 2021, along with cushion in fund-based limits, which are sparsely utilised (Rs. 73.0-crore undrawn limits as on September 30, 2021). Further, healthy cash flow generation and inherently low working capital intensity of the business aid the liquidity position of the company. There are no debt raising plans for the planned capex.

Rating sensitivities

Positive factors – The rating could be upgraded if the company achieves a healthy growth in revenue, increased diversification across products and improvement in its profitability while maintaining a comfortable credit profile.

Negative factors – The rating could be downgraded if there is a material decline in the company's revenues and profitability. Additionally, PSL's rating would be prone to a downgrade if it undertakes aggressive debt-funded capex or experiences a significant stretch in its working capital cycle, which weakens its credit profile. In terms of specific credit metrics, operating profit margin (OPM) less than 4% on a sustained basis would be a negative rating trigger.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Fast Moving Consumer Goods Industry
Parent/Group Support	Not applicable
Consolidation/Standalone	Consolidated

About the company

Prataap Snacks Limited, promoted by Mr. Arvind Mehta, Mr. Apoorva Kumat and Mr. Amit Kumat, is an Indian snack food company engaged in manufacturing and marketing of multiple product variants across potato chips, extruded snacks and traditional Indian savouries (*namkeen*) under the Yellow Diamond brand and sweet snacks under the Rich Feast brand. The company raised Rs. 236 crore through an IPO in September, 2017. In FY2019, it entered the Gujarat market through the acquisition of Avadh Snacks Private Limited. As on date, it operates through 15 manufacturing facilities, of which seven are company-owned and eight are on a contract manufacturing basis. At present, the private equity player, the Sequoia Group holds ~48.4% stake in the company.

Key financial indicators (audited)

PSL Consolidated	FY2020	FY2021	H1 FY2022*
Operating Income (Rs. crore)	1393.8	1171.1	650.2
PAT (Rs. crore)	46.9	14.2	13.1
OPBDIT/OI (%)	6.8%	5.4%	5.4%
PAT/OI (%)	3.4%	1.2%	2.0%
Total Outside Liabilities/Tangible Net Worth (times)	0.5x	0.4x	0.5x
Total Debt/OPBDIT (times)	0.8x	0.9x	1.2x
Interest Coverage (times)	12.6x	10.1x	11.2x

*Source: Company, *Unaudited results*

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore) *	Date & Rating in	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
					Jan 31, 2022	Nov 19, 2020	Aug 30, 2019	Sep 12, 2018
1	Cash Credit	Long Term	98.00	-	[ICRA]A+ (Stable)	-	-	[ICRA]A+ (Stable)
2	Unallocated	Long Term	2.00	-	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	-
3	Term Loan	Long Term	-	-	-	-	-	[ICRA]A+ (Stable)

Source: Company

Complexity level of the rated instrument

Instrument Name	Complexity Indicators
Long Term – Cash Credit	Simple
Long Term – Unallocated	NA

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, is available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit	NA	NA	NA	98.00	[ICRA]A+ (Stable)
NA	Unallocated	NA	NA	NA	2.00	[ICRA]A+ (Stable)

Source: Company.

Please click here to view details of lender-wise facilities rated by ICRA

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Prataap Snacks Limited	NA*	Full Consolidation
Avadh Snacks Private Limited	90.48%	Full Consolidation

*Source: Company, *parent company*

Corrigendum

Rationale dated January 31, 2022, has been corrected with revision as detailed below:

There is a correction in the KFI table for H1 FY2022. The earlier operating income for H1 FY2022 was wrongly mentioned Rs. 65.2 crore, has been corrected with Rs. 650.2 crore.

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About ICRA Limited:

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Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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