April 10, 2023

Parmanand and Sons Food Products Private Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Cash Credit	70.00	70.00	[ICRA]BBB- (Stable); reaffirmed
Long-term – Unallocated Limits	9.10	9.10	[ICRA]BBB- (Stable); reaffirmed
Total	**79.10**	**79.10**	

**Instrument details are provided in Annexure-I*

Rationale

The rating reaffirmation takes into consideration the extensive experience of the promoters of Parmanand and Sons Food Products Private Limited (PSPL) and the company's established presence in the food processing industry with sizeable milling capacities for besan and chana dal. The rating also reflects PSPL's well-entrenched distribution network and product portfolio, which supported the company's steady business growth. Following transfer of the moong dal processing business to another company, the company's turnover declined to that extent in FY2022. However, the company's core business of producing besan remained stable amid high realisations in FY2023. Further, the company is likely to register a significant revenue growth in FY2024 backed by an increased sales volume of besan and introduction of new products in the retail market. The rating also derives comfort from the comfortable capital structure with no major repayment obligations except for flexible short-term loans from the promoters and adequate liquidity position of the company, given the stable cash accruals and moderate utilisation of the working capital limits. The rating reaffirmation also takes into consideration the established presence of the company in both the branded/retail segment through its PAN brand as well as in the bulk sale segment, having reputed customers. ICRA believes that the company would continue to benefit from the favourable demand prospects as agri-based food products form an essential constituent of the staple Indian diet.

The rating is, however, constrained by the intensely competitive industry structure, which restricts the pricing power and exerts pressure on the company's profitability. Moreover, the low value additive nature of the business limits the profit margins of the company. The company's operations and margins are also susceptible to the prevailing agro-climatic conditions and changes in the Government policies. The rating also considers the vulnerability of the operating margins to the fluctuations in the commodity prices, even though the company has been able to pass on the increase to its customers in the past years.

The Stable outlook on the [ICRA]BBB- rating reflects ICRA's opinion that PSPL will continue to register a steady growth in its revenue, supported by the extensive experience of its promoters and management in the food processing industry.

Key rating drivers and their description

Credit strengths

Extensive experience of promoters in food processing industry – The company's business was started in 1973 by the members of the Mittal family. The promoters have an experience of more than three decades in this business, which along with the expansion of the manufacturing base has enabled them to achieve a steady increase in the company's scale of operations and establish a wide customer base.

Established relationship with reputed clients, increased coverage in retail distribution – Over the years, PSPL has expanded its manufacturing base and developed a wide distribution network. It has strong relationship with its institutional customers, which include reputed snack manufacturing companies such as the Haldiram Group, Bikaji, Bikano etc. During the last few years, the company has increased the proportion of sales from the retail distribution channels to reduce high dependence on institutional sales, as reflected by introduction of new products such as mustard oil. The company markets its product under the PAN brand in the retail segment.

Comfortable capital structure and adequate liquidity buffer in bank limits – Steady accretion to reserves, no major increase in external debt for working capital or capex requirements continued to result in a low gearing level of ~1.0 times for the company in FY2022. The company continues to maintain adequate liquidity, supported by moderate utilisation of its working capital limits.

Credit challenges

Low profit margin inherent in industry – The company operates in a highly commoditised market. Its operating margin has remained in the range of 1.8-2.2% in the last few years on account of its low value-added nature of operations and the fragmented and unorganised market. Consequently, the net margin also remains low at around 0.7%.

Vulnerability of turnover and profits to fluctuations in commodity prices – Subsequent to the transfer of the moong dal business to another company, the entire raw material requirement of the company is met from domestic markets. However, owing to volatility in the prices of pulses and other agro commodities, the turnover and profits remain exposed to fluctuations. Nevertheless, the company has been able to pass on the increase in raw material prices to its customers in the past years.

Exposure to agro-climatic risks and changes in Government regulations – Given its operations in an agro-based industry, PSPL remains exposed to agro-climatic risks such as quality raw material availability and pricing. Moreover, any change in Government regulations such as changes in minimum support price (MSP), adverse development on import policies, and export ban from overseas markets can also have a bearing on the performance of all industry players, including PSPL.

Liquidity position: Adequate

PSFPPL's liquidity position remains adequate, as reflected by its stable cash accruals and moderate utilisation of working capital limits (~50% over the last 14 months ending in February 2023). Further, the company does not have any fixed debt repayment obligations, or any major debt-funded capex plans in the medium term. The company's liquidity also derives comfort from the promoters' need-based support in the form of unsecured loans with flexible terms.

Rating sensitivities

Positive factors – The rating could be upgraded if the company demonstrates a sustained improvement in its revenue and profitability. Specific credit rating metrics that may lead to a positive rating action include an interest coverage above 3 times on a sustained basis.

Negative factors – The rating could be downgraded in case of a substantial decline in its revenue and operating margins, resulting in subdued cash accruals on a sustained basis. Any significant debt-funded capital expenditure or an elongation in its working capital cycle, leading to a deterioration in the company's liquidity and credit profile could result in a negative rating action.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the standalone financials of the rated entity

About the company

Parmanand and Sons Food Products Private Limited (PSPL) produces and sells food products like *besan* (chickpea flour) and processed pulses. Additionally, the company sells processed food items such as atta, maida, daliya, poha and mustard oil under its own brand in the retail market. The company also trades in a large variety of agri produce including various pulses. The company's entire shareholding is held by the Delhi-based Mittal family. The processing facilities of the company are located in Delhi and Haryana. The company sells its products under the PAN brand.

Key financial indicators (audited)

Parmanand and Sons Food Products Private Limited	FY2021	FY2022
Operating income	309.5	255.0
PAT	2.2	1.8
OPBDIT/OI	2.0%	2.2%
PAT/OI	0.7%	0.7%
Total outside liabilities/Tangible net worth (times)	0.9	1.1
Total debt/OPBDIT (times)	6.9	9.7
Interest coverage (times)	2.1	1.8

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs. crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2024)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					Apr 10, 2023	Apr 29, 2022	-	Jan 29, 2021
1	**Cash Credit**	Long term	70.00	--	**[ICRA]BBB-(Stable)**	**[ICRA]BBB- (Stable)**	-	**[ICRA]BBB- (Stable)**
2	**Term loans**	Long term	0.00	0.00	-	-	-	**[ICRA]BBB- (Stable)**
3	**Unallocated**	Long term	9.10	--	**[ICRA]BBB-(Stable)**	**[ICRA]BBB- (Stable)**	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term Fund-based – Cash Credit	Simple
Long-term – Unallocated Limits	Not Applicable

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 are available on ICRA's website: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit	NA	9.0%	NA	70.00	[ICRA]BBB-(Stable)
NA	Unallocated Limits	NA	NA	NA	9.10	[ICRA]BBB-(Stable)

Source: Company

Annexure II: List of entities considered for consolidated analysis – Not applicable

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

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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