Press Release

Munshi Panna Masala Udyog Private Limited

June 12, 2018

Rating Assigned

Total Bank Facilities Rated*	Rs.6.00 Cr.
Long Term Rating	ACUITE BB / Outlook: Stable

** Refer Annexure for details*

Rating Rationale

Acuité has assigned long-term rating of **'ACUITE BB' (read as ACUITE double B)** on the Rs.6.00 crore bank facilities of Munshi Panna Masala Udyog Private Limited (MPPL). The outlook is **'Stable'**.

Munshi Panna Masala Udyog Private Limited (MPPL) is an Agra-based company engaged in processing and manufacturing of about 40 varieties and variations of spices and masala powders such as Turmeric, Coriander, Mirchi, Biriyani masala, Raita Masala, among others. The company sells the products under the brand name 'Munshi Panna Spices' and majorly serves the Agra market. It has installed capacity to process and manufacture 25 tonnes of spices material per day (TPD) at its Agra unit (Uttar Pradesh).

Key Rating Drivers

Strengths

- **Experienced management and improving revenue profile**

  Munshi Panna Masala Udyog Private Limited is promoted by Mr. Vishnu Kumar Goyal and Mrs. Krishna Goyal; they have experience of around four decades in the field of spice business and their sons, Mr. Sachin Goyal and Mr. Nitin Kumar Goyal have an experience of around two decades in this industry. Started in 2013 as a private limited company, it has expanded its area of operations from Agra city to places in Rajasthan, Madhya Pradesh and Haryana. The business has its foundations way back to 1940, started by the first generation entrepreneurs, Mr. Munshi Lal and Mr. Panna Lal. Before converting into private limited company as MPPL in 2013, it was a proprietorship concern formed in 2000 as 'Munshi Panna Masala Udyog'.

  MPPL has reported revenues of about Rs.85.00 crore on provisional basis for FY2018; they have seen a growth at compound annual growth rate (CAGR) of about 19 percent over four years through FY2018. Exploring new markets such as Rajasthan, Madhya Pradesh and Haryana supported by aggressive pricing to increase market reach has led to increase in operating income over these years. Supported by the market reach, the management has undertaken capital expenditure programme (capex) to enhance the processing capacity to 50 TPH. Acuité believes that, with the ongoing capex, MPPL is poised to penetrate deeper into the existing markets besides stabilizing and improving in the newer territories over the medium term.

- **Moderate financial risk profile**

  The financial risk profile is marked by moderate gearing and comfortable debt protection metrics, though underpinned by low net worth base. The gearing is moderate at about 1.4 times (Provisional) as of March 31, 2018; an improvement from 2.23 times in the previous year. Though gearing is likely to deteriorate with the proposed debt-funded capex of Rs.4.00 crore, funded out of term loan of Rs.3.00 crore and rest via promoter's contribution, however, the same is likely to be around 1.5 times over the medium term supported by comfortable accretions to reserves. Cash accruals are expected to be around Rs.2.00 crore per annum over the medium term against repayment obligations of Rs.0.60 crore per annum. Its net worth is modest at Rs.4.20 crore (Provisional) due to low capital base after converting it into a private limited company. Its debt protection metrics are comfortable with interest coverage ratio (ICR) at 4.5 times and net cash accruals to total debt (NCA/TD) at 0.28 times (Provisional) as of March 31, 2018. Though the same are expected to marginally deteriorate due to the proposed capex, however they are comfortable. Acuité believes that with the improving revenue profile marked by stable operating margins at about 3.5 percent, MPPL is expected to maintain the financial risk profile over the medium term.

- **Efficient working capital management**

The company has efficient working capital operations, as reflected in the Gross Current Assets (GCA) days of 45 (Provisional) as on March 31, 2018 due to cash and carry model (majorly) and against advance payments from its client dealers and distributors; whereas it maintains inventory (both processed and raw material) of about 45 days for smooth flow of business. On procurement front, it gets about two weeks of credit from the suppliers. Acuité believes that with diversified distributor base, the working capital cycle is expected to be at similar levels over the medium term.

Weaknesses

- **Exposure to volatility in raw material prices**

The company's raw materials are agro-based and its prices are highly volatile in nature. The revenues and the profitability level are impacted by fluctuations in prices of agro commodities. Though MPPL's revenues have increased by about 19 percent from Rs.69.70 crore in FY2017 to about Rs.82.94 crore (Provisional) in FY2018, the operating margins are stagnant at about 3.5 percent (Provisional). Acuité believes that margins are likely to be under pressure and at similar levels as it is expanding and building its footprint in the newer territories besides the volatility in input material.

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of the MPPL to arrive at this rating.

Outlook: Stable

Acuité believes that the outlook on MPPL will remain 'Stable' over the medium term on account of its experienced management and long operational track record. The outlook may be revised to 'Positive' in case of better-than-expected improvement in revenues and profitability while improving its financial risk profile. Conversely, the outlook maybe revised to 'Negative' in case of any stretch in the liquidity owing to increase in inventory position or larger-than-expected capital expenditure (capex) programme undertaken.

About the Rated Entity - Key Financials

	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	69.70	62.97	48.90
EBITDA	Rs. Cr.	2.46	1.24	1.10
PAT	Rs. Cr.	1.09	0.23	0.28
EBITDA Margin	(%)	3.53	1.96	2.26
PAT Margin	(%)	1.56	0.37	0.58
ROCE	(%)	27.86	15.99	30.18
Total Debt/Tangible Net Worth	Times	1.60	2.23	1.63
PBDIT/Interest	Times	4.44	2.49	2.98
Total Debt/PBDIT	Times	2.14	3.88	2.91
Gross Current Assets (Days)	Days	49	58	60

Status of non-cooperation with previous CRA (if applicable)

None

Any other information

None

Applicable Criteria

- Default Recognition -https://www.acuite.in/criteria-default.htm
- Manufacturing Entities - https://www.acuite.in/criteria-manufacturing.htm
- Financial Ratios And Adjustments - https://www.acuite.in/criteria-fin-ratios.htm

Note on complexity levels of the rated instrument

https://www.acuite.in/criteria-complexity-levels.htm

Rating History (Upto last three years)

Not Applicable

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
Term Loan	Not Applicable	Not Applicable	Not Applicable	3.00	ACUITE BB / Stable (Assigned)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	3.00	ACUITE BB / Stable (Assigned)

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About Acuité Ratings & Research:

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