

## Press Release

### Dharwad Mishra Pedha And Food Processing Industry

June 29, 2018



#### Rating Assigned

<b>Total Bank Facilities Rated*</b>	Rs. 25.00 Cr.
<b>Long Term Rating</b>	ACUITE BBB- / Outlook: Stable

\* Refer Annexure for details

#### Rating Rationale

Acuité has assigned long-term rating of '**ACUITE BBB-**' (**read as ACUITE BBB minus**) on the Rs. 25.00 crore bank facilities of Dharwad Mishra Pedha And Food Processing Industry. The outlook is '**Stable**'.

Established in 1933, Dharwad Mishra Pedha and Food Processing Industry (Dharwad), a Dharwad, Karnataka based partnership firm is engaged in manufacturing of sweets and bakery products. Dharwad was founded by Sri. Avadhbihari Mishra and, currently it is being managed by Mr. Ganesh Mishra and Mr. Sanjay Ganesh Mishra. The firm's operations spread across three manufacturing units in Karnataka, and 107 franchise/outlets spread across Karnataka, Maharashtra and Goa.

#### Key Rating Drivers

##### Strengths

- **Experienced management and long track record of operations**

Established in 1933, Dharwad Mishra Pedha and Food Processing Industry (Dharwad) has a long operational track record of more than eight decades in the sweets and bakery business. Current partners of the firm have experience of more than three decades in the sweet making and bakery segment. Dharwad has reputed customer base spread across Maharashtra, Karnataka and Goa. About 75 per cent of its revenues are derived from outlets/franchise and remaining 25 per cent comes from distributors and agents. Further, the management of Dharwad over the years has also built a healthy relationship with suppliers for procurement of raw materials. Acuité believes that Dharwad will continue to benefit from its experienced management and established relation with its customers and suppliers.

- **Steady growth in revenues and profitability**

Dharwad has reported revenues of Rs.76.60 crores (provisional) in FY2018 (refers to financial year, April 1st to March 31st) as against Rs.69.44 crore in FY2017; over the past four years through FY2018, the revenue growth at a compound annual growth rate is about 12.6 per cent. This is backed by regular addition of franchisees as well as distributors/agents spread across the territories of Karnataka, Maharashtra and Goa. To focus on the core business of sweet making while managing the revenue growth, the firm entered into a logistics arrangement with a third party for distribution of the sweets and bakery products across the locations. This will support in reducing the future capex and operational stress on non-core business of transportation. Further, the management plans to convert the firm into private limited company; and allow a strategic investor to invest in the company about Rs.15.0 crores for minor stake; pending conversion, the funds have been invested in the firm through the hands of the existing partner. The proposed dilution is to expand the reach and inorganic growth in business volumes over the near to medium term. The firm's operating profitability margins are moderate and stable at about 9.0-9.5 per cent over the past three years through FY2018. Acuité believes that the firms' revenues are expected to improve significantly basis separation of non-core business, expected dilution of stake while maintaining the margins in line with the past trend.

- **Healthy financial risk profile**

The financial risk profile is healthy marked by healthy gearing (debt-to-equity) of 0.55 times (provisional) as on 31 March, 2018 compared to 8.44 times in FY 2017; the improvement in the net worth is owing to an investment made by an investor through the existing partner, resulting in networth improving to about Rs.20.72 crores (provisional). Debt protection metrics are comfortable: interest coverage ratio (ICR) at 2.06 times and net cash accruals to total debt (NCA/TD) stood at 0.35 times.

Acuité believes that the financial risk profile is expected to deteriorate marginally owing to expected increase in revenues and incremental debt to support the business volumes; however, it continues to be at healthy levels.

- **Efficient working capital management**

Firm's working capital operations are healthy as evident from gross current assets (GCA) days of 102 as on March 31, 2018 (provisional). The firm maintains inventory of about 51 days of its cost of sales, while receivable days on an average is around 36 days and its overall working capital cycle is maintained so efficiently around 30 days. Acuité believes that Dharwad's working capital management continues to be efficient backed by fast moving products, and the brand name that it enjoys in the market.

### Weaknesses

- **Competitive and fragmented industry**

The firm operates in a highly fragmented industry with large number of organised and unorganized players resulting in low bargaining power with customers. As the firm is poised for high growth basis stake dilution and hiving off logistics operations, maintaining the quality and growth are the key rating sensitivity factors.

### Analytical Approach

Acuité has considered the standalone business and financial risk profile of Dharwad

### Outlook: Stable

ACUITE believes that the outlook on the rated facilities of Dharwad will remain stable over the medium term on account of its experienced management and long standing presence in sweet and bakery business. The outlook may be revised to 'Positive' in case of better-than-expected improvement in revenues and profitability while maintaining the capital structure. Conversely, the outlook may be revised to 'Negative' in case of higher-than-expected borrowings or any inordinate delay in conversion of the firm into private limited company resulting in deterioration of its financial risk profile.

### About the Rated Entity - Key Financials

	Unit	FY18 (Provisional)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	76.61	69.44	60.93
EBITDA	Rs. Cr.	7.44	6.64	5.55
PAT	Rs. Cr.	1.88	0.67	0.58
EBITDA Margin	(%)	9.72	9.57	9.11
PAT Margin	(%)	2.46	0.96	0.96
ROCE	(%)	17.63	15.43	15.94
Total Debt/Tangible Net Worth	Times	0.55	8.44	4.86
PBDIT/Interest	Times	2.06	1.76	1.67
Total Debt/PBDIT	Times	1.48	4.23	3.87
Gross Current Assets (Days)	Days	102	90	116

### 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/view-rating-criteria-4.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.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. Cr.)	Ratings/Outlook
Proposed Secured Overdraft	Not Applicable	Not Applicable	Not Applicable	25.00	ACUITE BBB- / Stable

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### About Acuité Ratings & Research:

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