

Press Release

Palash Udyog Foods Private Limited

October 18, 2019



Rating Downgraded and Assigned

Total Bank Facilities Rated*	Rs. 15.25 Cr. (Enhanced from Rs 6.75 Cr.)
Long Term Rating	ACUITE B+/Stable (Downgraded from ACUITE BB-/Stable)

* Refer Annexure for details

Rating Rationale

Acuité has downgraded the long-term rating of '**ACUITE B+** (read as **ACUITE B plus**) from '**ACUITE BB-**' (read as **ACUITE double B minus**) on the Rs. 8.50 crore bank facilities of Palash Udyog Foods Private Limited (PUFPL). The outlook is '**Stable**'.

In addition, Acuité has assigned long term rating of '**ACUITE B+** (read as **ACUITE B plus**) on the Rs. 4.92 crore bank facilities of Palash Udyog Foods Private Limited (PUFPL). The outlook is '**Stable**'.

The downgrade is on account of decline in PUFPL's revenue and elongation in its working capital cycle. The downgrade also factors in the liquidity pressures emanating from full utilisation of its working capital limit resulting in deterioration in its debt-equity. Going forward, further dip in revenue and stretch in its working capital cycle will impart downward revision of the rating.

Incorporated in 2002, Palash Udyog Foods Private Limited (PUFPL) is an Odisha-based company promoted by Mr. Palash Kumar Patra. PUFPL is engaged in processing of spices and flour, and packaging of edible oil. The company procures whole spices such as chilli, coriander, jeera and turmeric and processes them through blending and mixing. The spices are sold through 150 dealers and distributors under its own brand name 'Meera' certified by AGMARK. The company has nearly 134 varieties of basic and blended spices. PUFPL procures mustard oil and Palmolein oil from Rajasthan and West Bengal and packages under its own brand 'Meera'. The company has further diversified into process of wheat to produce atta and besan.

Analytical Approach

Acuité has considered the standalone business and financial risk profile of PUFPL to arrive at the rating.

Key Rating Drivers

Strengths

- **Experienced management**

Established as M/s Patra Enterprises and later converted into private limited company in 2002, the company has an operational track record of nearly two decades in the same line of business. The long track record of operations has helped the company to build healthy relationship with dealers and distributors.

Weaknesses

- **Moderate Financial Risk Profile**

The financial risk profile is moderate marked by tangible net worth of Rs 4.91 crore as on 31 March, 2019 (Provisional) as against Rs. 4.33 crore a year earlier. The gearing deteriorated to 2.66 times as on 31 March, 2019 (Provisional) as against 1.58 times a year earlier. The deterioration in its debt equity is due to higher reliance on bank borrowings to fund its working capital requirement. The debt of Rs 13.07 crore consists of term loans of Rs. 2.99 crore, and working capital loan of Rs. 10.08 crore as on 31 March, 2019 (Provisional). The debt protection metrics stood moderate with interest coverage ratio of 1.86 times for FY19 (Provisional) as against 1.89 times in the previous year. Debt Service Coverage Ratio (DSCR) stood at 1.79 times for FY19 (Provisional) as against 1.71 times in FY18. Net Cash Accruals/Total Debt (NCA/TD) stood at 0.06 times as on 31 March, 2019 (Provisional). Acuité expects the financial risk profile to remain moderate over the medium term.

• **Working capital intensive nature of operations**

The working capital cycle deteriorated in FY 2018-19 as envisaged the Gross Current Assets (GCA) days of 93 days in FY19 (Provisional) as compared to 57 days in the year prior. The GCA days is reflected from the inventory days of 51 days in FY19 (Provisional) as compared to 23 days in FY 18. The debtor days remained in line with 23 days in FY19 (Provisional) as compared to 26 days in FY 18. The GCA days also incorporates the other current asset component amounting to Rs. 1.24 crore as on March 31, 2019 (Provisional). Further, the working capital intensity is reflected from the full utilisation of its working capital limit.

Rating Sensitivity

- Substantial growth in revenue coupled with improving profitability
- Improvement in working capital intensity and financial risk profile

Material Covenants

None

Liquidity Profile

PUFPL's liquidity profile is moderate marked by moderate net cash accruals of to its maturing debt obligations. During FY2019 (Provisional), the company generated net cash accruals of Rs. 0.85 crore sufficient to pay of its maturing debt obligations in the same period. The cash accruals of the company are expected to remain around Rs 1.05-1.52 crores over the medium term against repayment obligation of around Rs. 0.80-0.90 crores during FY 2020-2022. The company maintains unencumbered cash and bank balances of Rs 2.78 crore as on 31 March, 2019 (Provisional). The bank limit is utilized at more than 95 per cent in the thirteen months ended August, 2019. Acuité believes that the liquidity of the company is likely to remain moderate over the medium term on account of the cash accruals to its maturing debt obligation.

Outlook: Stable

Acuité believes that PUFPL will continue to benefit over the medium term from its experienced management. The outlook may be revised to 'Positive', if the company demonstrates substantial and sustained growth in its revenues and profitability metrics from the current levels, while improving its working capital intensity. Conversely, the outlook may be revised to 'Negative', if the company's revenue and profitability declines, while the financial risk profile deteriorates owing to increased working capital requirements.

About the Rated Entity - Key Financials

	Unit	FY19 (Prov.)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	68.05	84.38	82.31
EBITDA	Rs. Cr.	1.97	1.24	1.15
PAT	Rs. Cr.	0.19	0.27	0.24
EBITDA Margin	(%)	2.89	1.47	1.39
PAT Margin	(%)	0.28	0.32	0.29
ROCE	(%)	9.26	10.73	20.55
Total Debt/Tangible Net Worth	Times	2.66	1.58	1.24
PBDIT/Interest	Times	1.86	1.89	1.95
Total Debt/PBDIT	Times	6.50	5.17	4.36
Gross Current Assets (Days)	Days	93	57	44

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

None

Any other information

Not Applicable

Applicable Criteria

- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>
- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Manufacturing Entities- <https://www.acuite.in/view-rating-criteria-4.htm>

Note on complexity levels of the rated instrument
<https://www.acuite.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Date	Name of Instrument/ Facilities	Term	Amount (in Rs Crores)	Ratings/ Outlook
26-July-2018	Cash Credit	Long Term	6.00	ACUITE BB-/Stable (Assigned)
	Term Loan	Short Term	0.75	ACUITE BB-/Stable (Assigned)

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	10.00 (Enhanced from Rs 6.00 Crore)	ACUITE B+/ Stable (Downgraded from ACUITE BB-)
Term Loan-I	Not Applicable	Not Applicable	Not Applicable	0.33 (Reduced from Rs 0.75 Crore)	ACUITE B+/ Stable (Downgraded from ACUITE BB-)
Term Loan-II	Not Applicable	Not Applicable	Not Applicable	0.22	ACUITE B+/ Stable (Assigned)
Term Loan-II	Not Applicable	Not Applicable	Not Applicable	4.00	ACUITE B+/ Stable (Assigned)
Proposed Fund Based	Not Applicable	Not Applicable	Not Applicable	0.70	ACUITE B+/ Stable (Assigned)

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About Acuité Ratings & Research:

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