Acuite
RATINGS & RESEARCH

Press Release

Megha Fruit Processing Private Limited

D-U-N-S® Number: 67-650-8665

October 09, 2019

Rating Assigned

Total Bank Facilities Rated*	Rs. 140.00 Cr.
Long Term Rating	ACUITE BBB / Outlook: Stable
Short Term Rating	ACUITE A3+

** Refer Annexure for details*

Rating Rationale

Acuité has assigned long-term rating of '**ACUITE BBB**' **(read as ACUITE BBB)** and short term rating of **'ACUITE A3+' (read as ACUITE A three plus)** on the Rs. 140.00 crore bank facilities of MEGHA FRUIT PROCESSING PRIVATE LIMITED. The outlook is **'Stable'**.

Megha Fruit Processing Private Limited (MFPL) is a Karnataka-based entity, incorporated in the year 2003. It is a flagship entity of Megha Group, promoted by Mr. Krishna Sathyashankar. MFPL is engaged in manufacturing of carbonated pulp mixed soft drinks, fruit drinks, packaged drinking water, potato chips and other namkeen packaged food products. The company markets 90 per cent of its products mainly in southern region of India and remaining in other parts of the country such as Maharashtra, Madhya Pradesh, Gujarat, among others. The company has more than 2000 distributors across India. The company sells its products under the brand name 'Bindu', 'Sipon', 'Fruzon', 'Snakup' and 'Zivo'. Bindu Zeera Masala is the flagship product of the company.

About the group:
Megha Group is promoted by Mr. Sathya Shankar and his wife Mrs. Ranjitha Shankar. In 2000, the promoters have started packaged drinking water under the name 'Megha Springs Private Limited'. In 2002-03, the group established a soda water and aerated drinks facility under the name of 'Megha Bottling' (MB) (as a proprietorship firm of Mrs. Ranjitha Shankar). In 2003, the promoters incorporated 'MFPL' with the objective of manufacturing and trading packaged soft drinks and fruit drinks. In 2008, they established another company under the name of Mahima Shankar Processed Foods Private Limited for producing packaged snack or namkeen products. In June 2017, promoters have merged 'Megha Springs Private Limited' and 'Mahima Shankar Processed Foods Private Limited' with 'Megha Fruit Processing Private Limited'. The group has two marketing entities 'Mahima Traders' and 'Megha Marketing' as marketing agents for the products manufactured by the MFPL and MB. Apart from the above, the group has other two entites Praveen Capital Private Limited (PCPL), Praveen Auto Care Private Limited (PAPL), Praveen Auto Finance (PAF), which are into investment and financing activities.

Analytical Approach
Acuité has consolidated the financials and business risk profiles of Megha Fruit Processing Private Limited (MFPL), Megha Bottling (MB), Mahima Traders (MT) and Megha Marketing (MM) The same is due to similar line of business, intercompany transactions, common management, and financial linkages. Now the above entities together referred to as Megha Group.

Key Rating Drivers

Strengths

- **Experienced management and long track record of operations**
The group is promoted by Mr. Sathya Shankar and family, who possess about two decades of experience in the FMCG sector. Experience of the management and experienced marketing team has helped the group in building strong brand presence in Karnataka. The same has reflected in improving revenues from Rs.196.78 crore in FY2017 to Rs.274.26 crore in FY2019 (Provisional). The group

sells its product through more than 2000 distributors in Karnataka, Andhra Pradesh, Telangana and other parts of India. Around 57 per cent of its turnover comes from Karnataka region, 26 percent from Andhra Pradesh and remaining from Maharashtra, Telangana, Orissa, among others. Bindu Jeera Masala is the flagship product of the group and they are the market leader in Karnataka. Bindu Jeera masala contributed about 55 per cent of the total revenue in FY2019. Other main products of the group are Sipon and Bindu Water, Fruzon, among others. The group is penetrating into the untapped markets in above mentioned states as well as Gujarat, Chhattisgarh, West Bengal, among others. The group is planning to increase the carbonated soft drinks capacity at Telangana with the investments of about Rs.25 crore. Further, the group is also planning to associate with Ceylone Beverage Can (Pvt) Limited for manufacturing of carbonated and Frozen products. Acuité believes that the group will benefit from the experience of the management over the medium term.

- **Comfortable financial risk profile**

Financial risk profile of the group is comfortable marked by comfortable gearing (Debt to Equity ratio), total outside liabilities to total net worth (TOL/TNW) and debt protection metrics. The gearing (debt-to-equity) is comfortable at 1.42 times as on 31 March, 2019 (Provisional). TOL/TNW is comfortable at 1.76 times as on 31 March, 2019 (Provisional). This is mainly on account of comfortable net worth, which stood at Rs.90.80 crore as on 31 March, 2019 (Provisional). Of the total debt of Rs.129.00 crore as on 31 March, 2019 (Provisional), long term debt stood at Rs.81.47 crore and short term debt stood at Rs.47.53 crore. Debt protection metrics of interest coverage ratio and net cash accruals to total debt (NCA/TD) are comfortable at 3.73 times and 0.26 times, respectively, in FY2019 (Provisional). The group reported net cash accruals (NCA) of Rs.33.78 crore in FY2019 (Provisional). The group is planning a capital expenditure of Rs.25 crore in FY2020 for expansion of carbonated soft drinks division capacity at Telangana plant, which will be funded through bank loan of Rs.21 crore and promoter contribution/internal accruals of Rs.4 crore. Cash accruals are expected in the range of Rs.39-55 crore against the repayment obligations of about Rs.13-15 crore. Acuité believes that with moderate accruals and moderate capex, the financial risk profile is expected to improve marginally over the medium term

Weaknesses

- **Moderate working capital cycle**

Operations are moderately working capital intensive marked by moderate gross current assets, which stood at 154 days in FY2019 (Provisional) as against 202 days in FY2018. The same is due to high inventory levels. Inventory cycle stood at 148 days in FY2019 (Provisional) as against 181 days in FY2018 due to year end procurement and storage of raw materials and finished goods to meet the peak seasonal business in summer. Debtors cycle is comfortable within one month from the last three years through FY2019. The same led to moderate utilisation of its bank lines at 68 per cent for the last six months through March 2019. Acuité believes that the operations are expected to be moderately working capital intensive over the medium term.

- **Geographically concentrated revenue profile**

The group generates around 57 per cent of revenues from Karnataka and 26 per cent of revenues from Andhra Pradesh region; thus exposing to geographic concentration risk. However, the company is planning to mitigate the risk by diversifying to other regions like such as Maharashtra Telangana, Orissa, among other states. Apart from the geographical concentration risk, the group faces stiff completion from the established players in the market. Ability of the group in diversifying into new geography and sustaining the profitability and revenues would be the key rating factor over the medium.

Rating Sensitivities

- Improvement and diversifying its revenues profile while maintaining stable profitability margins.
- Any stretch in working capital leading to deterioration in liquidity.

Material Covenants

None

Liquidity Position

Megha Group has adequate liquidity marked by comfortable net cash accruals to its maturing debt obligations. The group generated cash accruals of Rs.33.78 crore during FY2019. The cash accruals of the group are estimated to be around Rs.39-55 crore to meets its repayment obligations of Rs.13-15 crore during 2020-21. The cash credit limit of the group remains utilised at around 68 per cent during the last six month period ended March, 2019. The group maintains unencumbered cash and bank balances of Rs.1.16 crore as on March 31, 2019 (Provisional). The current ratio of the company stood moderate at 1.14 times as on March 31, 2019. Acuité believes that the liquidity of the group is likely to remain adequate over the medium term on account of comfortable cash accruals sufficient to meet its repayments over the medium term.

Outlook: Stable

Acuité believes that Megha Group will maintain a 'Stable' outlook over the medium term, owing to its promoters' extensive experience in the industry, longstanding operations and strong brand presence in Karnataka. The outlook may be revised to 'Positive' in case the group achieves more than envisaged sales and profitability, while diversifying its revenue profile and sustains its capital structure. Conversely, the outlook may be revised to 'Negative' if there is stretch in its working capital management or larger-than-expected debt-funded capex or drop in profitability while penetrating into newer territories leading to deterioration of financial risk profile and liquidity.

About the Rated Entity - Key Financials - Consolidated

	Unit	FY19 (Provisional)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	274.26	230.56	196.78
EBITDA	Rs. Cr.	49.26	46.18	31.06
PAT	Rs. Cr.	13.72	7.09	9.62
EBITDA Margin	(%)	17.96	20.03	15.78
PAT Margin	(%)	5.00	3.07	4.89
ROCE	(%)	13.55	10.72	15.58
Total Debt/Tangible Net Worth	Times	1.42	1.99	2.23
PBDIT/Interest	Times	3.73	2.73	2.81
Total Debt/PBDIT	Times	2.55	3.27	4.93
Gross Current Assets (Days)	Days	154	202	242

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

None

Any other information

None

Applicable Criteria

- Default Recognition - https://www.acuite.in/view-rating-criteria-17.htm
- Manufacturing Entities - https://www.acuite.in/view-rating-criteria-4.htm
- Trading Entities - https://www.acuite.in/view-rating-criteria-6.htm
- Consolidation Of Companies - https://www.acuite.in/view-rating-criteria-22.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
Cash Credit	Not Applicable	Not Applicable	Not Applicable	70.00	ACUITE BBB / Stable
Term loans	Not Applicable	Not Applicable	Not Applicable	17.84	ACUITE BBB / Stable
Term loans	Not Applicable	Not Applicable	Not Applicable	35.00	ACUITE BBB / Stable
Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	10.16	ACUITE BBB / Stable
Letter of credit	Not Applicable	Not Applicable	Not Applicable	7.00	ACUITE A3+

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About Acuité Ratings & Research:

Acuité Ratings & Research Limited (Erstwhile SMERA Ratings Limited) is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 6,000 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Mumbai.