Press Release

Megha Fruit Processing Private Limited

December 28, 2020

Rating Reaffirmed

Total Bank Facilities Rated*	Rs. 130.81 Cr. (Reduced from Rs. 140.00 Cr.)
Long Term Rating	ACUITE BBB / Outlook: Stable (Reaffirmed)
Short Term Rating	ACUITE A3+ (Reaffirmed)

** Refer Annexure for details*

Rating Rationale

Acuité has reaffirmed the long-term rating of '**ACUITE BBB**' **(read as ACUITE triple B)** and reaffirmed the short-term rating of '**ACUITE A3+**' **(read as ACUITE A three plus)** on the Rs. 130.81 crore bank facilities of Megha Fruit Processing Private Limited. The outlook is **'Stable'**.

Megha Fruit Processing Private Limited (MFPL) is a flagship entity of Shankar group (the Group which includes Megha Bottling and Mahima Traders along with MFPL), which is a Karnataka based company incorporated in the year 2003, promoted by Mr. Krishna Sathyashankar. It is engaged in manufacturing of carbonated and pulp mixed soft drinks, fruit drinks, packaged drinking water, potato chips and other namkeen packaged food products.

Analytical Approach

Acuité has taken the consolidated view on the financials and business risk profiles of the group companies. Acuité has combined the audited financials of Megha Fruit Processing Private Limited (MFPL) and unaudited financials of 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 Megha Group. Extent of Consolidation: Full

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. MFPL has a set of well established brands which sells products like carbonated soft drinks, packaged drinking water, fruit drinks both in pet bottles and in Tetra Pak packages, Soda, packaged snacks and namkeen products with the flagship product being Bindu Jeera Fizz and SIPON fruit juices which accounted for 54 percent and 26 percent of sales for FY20. MFPL has strong presence in Karnataka, Andhra Pradesh, Maharashtra and Telangana which account for 93 percent and 95 percent sales in FY20 and FY19 respectively. Acuité believes that having strong brand recognition will help the company in improving sales in long run.

- **Strong dealership network**
  MFPL has a very strong and reliable distribution network with more than 2000 dealers. This has helped in achieving a wider customer reach. The distribution network has also helped the company keep the cost low for its products, keeping them competitive in the market. Acuité believes that having a strong dealership network can benefit the company in pushing new products into the markets and help improve brand portfolio in long run.

- **Moderate scale of operations**
  Over the past 3 years the company grew at a CAGR of 5.38 percent and expects to grow at much faster pace in future as a result of additional capacity from the new line in the Sangareddy plant which will help the company cater to new markets in Central and Eastern India, and improve its presence in South India. Although the revenue increased, the EBITDA margin decline from 15.79 percent in FY19 to 12.28 percent in FY20 (Provisional). The decline in EBITDA margin was as a result of increased SG&A expenses due to

pandemic impact on supply chain resulted in cost overruns and increased employee cost associated with putting up new sales division. Acuité expects that the company will be able to cater to new markets in coming years, thereby helping to improve the revenue in medium term.

- **Comfortable financial risk profile**
  The company demonstrated comfortable capital structure with gearing improving from 1.37x in FY19 to 1.18x in FY20 (Provisional). This was primarily as a result of retention of profits in the business by the company and debt pay down and decline in short term debt primarily due to renegotiated supplier agreements resulting in lower inventory levels and lower cash credit utilizations. The interest coverage improved from 3.37x in FY19 to 3.52x primarily as a result of lower average debt and decline in interest cost while the DSCR deteriorated from 1.58x to 1.08x due to increased debt pay down associated with the repayment of term loan for the new line which became operational in FY21. Acuité believes that a strong financial risk profile will provide financial flexibility over long run and improving the ability for resource mobilization in future.

Weaknesses

- **Geographically concentrated revenue profile**
  The group generates around 60 percent of its FY20 revenues from Karnataka and 26 percent of revenues from Andhra Pradesh; 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, Kerala, Tamil Nadu, 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 term. Acuité believes that having geographically concentration can impact revenue of the company in case of adverse situations and believes that the entry into new markets and being profitable in those markets as a key rating monitorable.

- **Impact of COVID 19**
  The sales of beverages in India is highly seasonal with peak sales during the summer months of March to June and during the months of October and November. Sales of the company were lower than expected impact of restrictions imposed control spread of pandemic and consumers were forced to sit at home during the peak summer months resulting in revenue loss for the company. Sales are steadily recovering from the pandemic impact and the management expects to clock higher sales numbers in second half of financial year once the schools reopen, interstate buses starts, with the improvement in tourism and additional boost from the new markets the company expects to penetrate with the new line that was commissioned in October 2020.

Liquidity Position: Adequate

Though the operations of MFPL is moderately working capital intensive, the liquidity position of the company was comfortable with utilization of fund bases facilities declining from 47 percent in January 2020 to 3 percent in October 2020. Further, in FY20, the Gross Current Asset days improved from 184 days in FY19 to 138 days FY20 (Provisional). This improvement in working capital cycle was primarily as a result of renegotiated supplier agreements with most of them agreeing for shorter order lead times resulting in lower inventory holding period. The unencumbered cash in hand stood at Rs. 1.39 Cr at FYE20 (Provisional). Further, the Net cash accrual for the past 3 years was in the range of Rs 25.55 Cr to Rs 30.70 Cr while the repayments were in the range of Rs 14.38 Cr to Rs 22.90 Cr. Considering the factors mentioned above, Acuité expects that the group is expected to maintain this healthy difference between net cash accruals and debt repayments.

Rating Sensitivities

- Higher-than-expected revenues and profitability margins
- Ability to penetrate and maintain profitability in new markets
- Improvement in working capital cycle leading to better liquidity position

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 a stretch in its working capital management or larger-than-expected debt-funded capex or drop in profitability while penetrating into newer territories leading to the deterioration of financial risk profile and liquidity.

About the Rated Entity - Key Financials (Consolidated)

	Unit	FY20 (Provisional)	FY19 (Actual)
Operating Income	Rs. Cr.	274.53	269.11
PAT	Rs. Cr.	6.97	9.86
PAT Margin	(%)	2.54	3.66
Total Debt/Tangible Net Worth	Times	1.18	1.37
PBDIT/Interest	Times	3.52	3.37

Key Financials (Standalone)

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	301.75	382.71
PAT	Rs. Cr.	5.89	8.78
PAT Margin	(%)	1.95	2.29
Total Debt/Tangible Net Worth	Times	1.33	1.45
PBDIT/Interest	Times	3.62	3.79

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

Not Applicable

Any other information

None

Any Material Covenants

None

Applicable Criteria

- Default Recognition - https://www.acuite.in/view-rating-criteria-52.htm
- Manufacturing Entities - https://www.acuite.in/view-rating-criteria-59.htm
- Trading Entities - https://www.acuite.in/view-rating-criteria-61.htm
- Financial Ratios And Adjustments - https://www.acuite.in/view-rating-criteria-53.htm
- Consolidation Of Companies - https://www.acuite.in/view-rating-criteria-60.htm

Note on complexity levels of the rated instrument

https://www.acuite.in/view-rating-criteria-55.htm

Rating History (Upto last three years)

Date	Name of instrument/ Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
09-Oct-2019	Cash Credit	Long Term	70.00	ACUITE BBB/Stable (Assigned)
	Term Loan	Long Term	17.84	ACUITE BBB/Stable (Assigned)
	Term Loan	Long Term	35.00	ACUITE BBB/Stable (Assigned)
	Proposed Facility	Long Term	10.16	ACUITE BBB/Stable (Assigned)
	Letter of Credit	Short Term	7.00	ACUITE A3+ (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	60.00	ACUITE BBB/Stable (Reaffirmed)
Term Loan	08 Oct 2017	Not Available	30 Nov 2024	9.73	ACUITE BBB/Stable (Reaffirmed)
Term Loan	27 Nov 2019	Not Available	31 Dec 2027	54.08	ACUITE BBB/Stable (Reaffirmed)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	7.00	ACUITE A3+ (Reaffirmed)

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About Acuité Ratings & Research:
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