

Press Release

PBI India Private Limited

August 11, 2022



Rating Assigned and Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	0.18	-	ACUITE A3+ Assigned
Bank Loan Ratings	89.55	ACUITE BBB Stable Reaffirmed	-
Bank Loan Ratings	9.68	ACUITE BBB Stable Assigned	-
Total Outstanding Quantum (Rs. Cr)	99.41	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has reaffirmed and assigned the long term rating of '**ACUITE BBB**' (read as ACUITE triple B) and also assigned the short term rating of ACUITE A3+ (read as ACUITE three plus) to the Rs. 99.41 Cr bank facilities of PBI India Private Limited (PIPL). The outlook remains 'Stable'.

The reaffirmation of the rating on PIPL takes into account the sound business position of the Company as reflected from its growing revenue trend coupled with management's long track record in the sector, healthy financial profile characterized by strong debt protection metrics and moderate networth base. The rating also draws comfort from the adequate liquidity position of the company and efficient working capital management. These strengths are however, partly offset by the vulnerability of the margins to the volatility in commodity (wheat) prices and geographical concentration. The ratings are further impacted by the intensely competitive industry structure, which restricts the pricing and exerts pressure on the margins. Also, being in the food industry, quality and reputation risks remain high. The ratings also note the ongoing capex undertaken by the company for, which post successful commissioning, will have a positive impact on the company's operating margin.

About the Company

Incorporated in 1980, PBI India Private Limited (PIPL) runs a flour mill at Jammu and sells wheat and wheat products in Jammu & Kashmir and Punjab. The company, promoted by Mr. A. K. Puri, Mr. Sanjay Puri and Mrs. Anjali Puri has an installed capacity of ~1320000 Quintals per annum. The company manufactures flour and flour products such as atta, bran, maida, sooji, besan and dalia and sells the same under the 'P-Mark' brand name in Jammu & Kashmir and Punjab. It also provides tanker transportation services for Indian Oil Limited, carrying the petroleum products.

Analytical Approach

Acuite has considered the standalone business and financial risk profile of PIPL to arrive at the rating.

Key Rating Drivers

Strengths

Long track record of operations and experienced management

PIPL was incorporated in 1980 by Mr. A. K. Puri, Mr. Sanjay Puri and Mrs. Anjali Puri who possess experience of over three decades in the aforementioned business. This has helped establish long term relations with customers and suppliers. PIPL purchases its raw materials like wheat from Food Corporation of India (FCI) and other raw materials like split chickpeas (chana dal) for besan from local farmers in Punjab. The company sells its products mainly to local wholesalers. Acuité believes that PIPL will continue to leverage the experience of its management in order to continue developing healthy relationships with its customers and suppliers.

Average financial risk profile

The company's average financial risk profile is marked by moderate net worth, modest gearing and strong debt protection metrics. The tangible net worth of the company improved to Rs.49.13 Cr as on March 31, 2022 (Prov) from Rs. 40.18 Cr as on March 31, 2021, on account of capital infusion as well as ploughing back of profits. Gearing of the company stood at 1.56 as on March 31, 2022 (Prov) as compared to 1.59 as on March 31, 2021, mainly led by funds infused by the promoters towards the capex of the new second unit of flour mill. The company benefits from the financial support extended by the promoters through unsecured loans. Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood at 1.75 times as on March 31, 2022 (Prov) as against 2.04 times as on March 31, 2021. The debt indicators moderated in FY2022 due to decrease in profits and increased debt levels. However, the credit metrics of the company still stood strong, marked by Interest Coverage Ratio (ICR) at 4.28 times in FY 2022 (Prov) as against 12.48 times in FY 2021; and Debt Service Coverage Ratio (DSCR) at 2.05 times in FY 2022 (Prov) as against 4.73 times in FY 2021. Acuité believes that going forward, even though PIPL is expected to incur debt-funded capex to expand its presence by setting up a new plant in FY23, the financial risk profile of the company will remain be sustained, as backed by steady accruals and support from the promoters.

The company has undertaken a capex to set up another flour mill. The total cost of the project estimated at Rs. 84.84 Cr of which Rs.50.75 Cr would be funded through term loan and balance forty percent from promoters' sources. The funding risk is mitigated with the financial tie up completed for the Rs 50.75 crore of term loan. In this project, upto July 2022, the company has incurred Rs.30 Cr which is funded by internal accruals and funds infused by the promoters. Acuité notes that the project is susceptible to implementation risk as the production is expected to commence from Q1 FY2024 and the product offtake as well as market risks associated with the project post commissioning. Any delays in commissioning of the project or achieving the expected parameters on commencement of operations leading to lower-than-anticipated cash flows may put a stress on the debt servicing ability over the medium-term. However, the near-term repayment remains comfortable given the supplementary cash flows generated from the sale of property in the current fiscal. While Acuité takes note of the project implementation risk, the presence of an already operational unit in place is a source of comfort.

Efficient working capital management

The efficient working capital management of the company is marked by comfortable Gross Current Assets (GCA), which further improved to 59 days in as on March 31, 2022 (Prov) as compared to 85 days as on March 31, 2021.

Relatively higher GCA days as on March 31, 2021 were primarily on account of the increase in the inventory holding by the company on the back of increased demand and transit time driven by logistical challenges and higher stocking of raw materials and finished goods to prevent supply chain disruption amid the evolving Covid-19 scenario. However, with the ease

of covid restrictions, the inventory holding period reduced to 32 days as on March 31, 2022 (Prov) as compared to 62 days as on March 31, 2021, with also resulted in moderation the working capital utilization. Further, the receivables cycle has remained efficient as the debtor days continue to remain low at 21 days as on March 31, 2022 (Prov), similar to previous year. Acuité believes that the working capital operations of the company will remain almost at the same levels as evident from efficient collection mechanism and low inventory levels over the medium term.

Weaknesses

Decline in profit margins

The profitability margins of the company have decreased significantly in FY2022 owing to increase in the raw material prices and the company's inability to pass on the same to the customers. PIPL's margins are exposed to price volatility in wheat, as the Ukraine-Russia conflict has led to an increase in wheat (and flour) prices. The operating margin marginally declined to 6.61 per cent in FY2022 (Provisional) from 7.12 per cent in FY2021. The PAT margin of the company also declined to 2.62 per cent in FY2022 (Prov) from 4.06 per cent in FY2021. In FY2021, there was growth in profitability margins, primarily on account of high demand and variable cost reduction through operational efficiencies in production processes. Despite a buoyancy in realisations in current year, Acuité expects a significant increase in raw material prices (wheat) is likely to limit the margin expansion to some extent for FY23. Raw material costs account for ~85 per cent of total production cost, even a slight variation in rates of raw materials drastically impacts the profitability. Moreover, the company operates in a commoditised market and its operating margin will remain range bound on account of its low value-adding nature of operations and the fragmented and unorganised market.

Fragmented and competitive industry buoyed by increased geographical concentration risk

Jammu & Kashmir continues to be the company's key market, which is expected to continue in the future also exposing it to geographical concentration risk. Moreover, the Indian flour milling industry is highly fragmented with organized players and a number of small regional players. Recently, with increased awareness for hygiene and convenience, the local mills are now facing competition from branded packaged atta manufacturers. The Indian packaged wheat flour market comprises few national players, large number of regional players and private label brands who have pan India presence or restricted geographical presence based on their size and capacity. As numerous players operate in the segment selling a commoditised product, the pricing capability of the company is limited.

Rating Sensitivities

- Growth in revenue along with improvement in profitability margins
- Elongation in working capital management
- Improvement in capital structure
- Time Overrun in Capex

Material covenants

None

Liquidity Position: Adequate

Liquidity of the company is adequate on account of healthy cash accruals of Rs.13.92 Cr to support the maturing debt service obligations over the same period. Cash accruals also provide sufficient liquidity buffer to support incremental working capital operations to an extent. Further, the company has Rs. 0.87 crore of unencumbered cash and bank balances as on March 31, 2022 (Prov). The fund based limit remains moderately utilised at ~71.16 per cent over the seven months ended July, 2022. The current ratio also stood moderate at 1.13 times as on March 31, 2022 (Prov). The working capital management of the company is

satisfactory as reflected by Gross Current Assets (GCA) of 59 days as on March 31, 2022 (Prov) as against 85 days as on March 31, 2021. Acuité believes that going forward the company will continue to maintain adequate liquidity position owing to steady accruals.

Outlook: Stable

Acuité believes that PIPL will maintain a 'Stable' outlook and continue to benefit over the medium term from the extensive experience of its promoters. The outlook may be revised to 'Positive' in case of substantial increase in revenue and profitability. Conversely, the outlook may be revised to 'Negative' in case of decline in revenue and profitability or stretch in working capital cycle, weakening the overall financial risk profile.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 22 (Provisional)	FY 21 (Actual)
Operating Income	Rs. Cr.	329.74	299.09
PAT	Rs. Cr.	8.64	12.15
PAT Margin	(%)	2.62	4.06
Total Debt/Tangible Net Worth	Times	1.56	1.59
PBDIT/Interest	Times	4.28	12.48

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

Not Applicable

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Manufacturing Entities: <https://www.acuite.in/view-rating-criteria-59.htm>
- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

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

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
20 Apr 2022	Standby Line of Credit	Long Term	3.60	ACUITE BBB Stable (Reaffirmed)
	Working Capital Term Loan	Long Term	5.45	ACUITE BBB Stable (Assigned)
	Cash Credit	Long Term	27.65	ACUITE BBB Stable (Reaffirmed)
	Cash Credit	Long Term	1.35	ACUITE BBB Stable (Assigned)
	Term Loan	Long Term	1.50	ACUITE BBB Stable (Reaffirmed)
	Warehouse Receipt Financing	Long Term	50.00	ACUITE BBB Stable (Assigned)
	Standby Line of Credit	Long Term	3.60	ACUITE BBB Stable (Upgraded from ACUITE BB+)

04 Oct 2021	Term Loan	Long Term	1.50	ACUITE BBB Stable (Upgraded from ACUITE BB+)
	Proposed Cash Credit	Long Term	3.52	ACUITE BBB (Withdrawn)
	Cash Credit	Long Term	27.65	ACUITE BBB Stable (Upgraded from ACUITE BB+)
17 Nov 2020	Term Loan	Long Term	1.48	ACUITE BB+ (Downgraded and Issuer not co-operating*)
	Standby Line of Credit	Long Term	3.60	ACUITE BB+ (Downgraded and Issuer not co-operating*)
	Proposed Cash Credit	Long Term	3.52	ACUITE BB+ (Downgraded and Issuer not co-operating*)
	Term Loan	Long Term	0.15	ACUITE BB+ (Downgraded and Issuer not co-operating*)
	Cash Credit	Long Term	24.00	ACUITE BB+ (Downgraded and Issuer not co-operating*)
06 Sep 2019	Standby Line of Credit	Long Term	3.60	ACUITE BBB Negative (Reaffirmed)
	Proposed Cash Credit	Long Term	3.52	ACUITE BBB Negative (Reaffirmed)
	Term Loan	Long Term	1.63	ACUITE BBB Negative (Reaffirmed)
	Cash Credit	Long Term	24.00	ACUITE BBB Negative (Reaffirmed)
06 Jul 2018	Proposed Cash Credit	Long Term	7.12	ACUITE BBB Stable (Reaffirmed)
	Cash Credit	Long Term	24.00	ACUITE BBB Stable (Reaffirmed)
	Term Loan	Long Term	1.63	ACUITE BBB Stable (Reaffirmed)
18 Apr 2017	Term Loan	Long Term	2.75	ACUITE BBB Stable (Reaffirmed)
	Cash Credit	Long Term	21.25	ACUITE BBB Stable (Reaffirmed)
	Proposed Cash Credit	Long Term	8.75	ACUITE BBB Stable (Assigned)
26 Apr 2016	Cash Credit	Long Term	21.25	ACUITE BBB Stable (Reaffirmed)
		Long		
	Term Loan	Term	2.75	ACUITE BBB Stable (Reaffirmed)
07 May 2015	Cash Credit	Long Term	16.50	ACUITE BBB Stable (Reaffirmed)
	Term Loan	Long Term	2.75	ACUITE BBB Stable (Reaffirmed)
09 Apr 2014	Cash Credit	Long Term	5.50	ACUITE BBB Stable (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
State Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	29.00	ACUITE BBB Stable Reaffirmed
State Bank of India	Not Applicable	Covid Emergency Line.	Not Applicable	Not Applicable	Not Applicable	5.30	ACUITE BBB Stable Reaffirmed
State Bank of India	Not Applicable	Proposed Short Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	0.18	ACUITE A3+ Assigned
State Bank of India	Not Applicable	Stand By Line of Credit	Not Applicable	Not Applicable	Not Applicable	3.60	ACUITE BBB Stable Reaffirmed
State Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	0.58	ACUITE BBB Stable Reaffirmed
State Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	41.07	ACUITE BBB Stable Reaffirmed
State Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	9.68	ACUITE BBB Stable Assigned
State Bank of India	Not Applicable	Warehouse Receipt Financing	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE BBB Stable Reaffirmed

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About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & 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. Acuité has assigned 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 Kanjurmarg, Mumbai.

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