Rating Rationale

04 Oct 2019

Patanjali Ayurved Limited

Brickwork Ratings reaffirms the long term and short term ratings for the bank loan facilities aggregating Rs. 2203.69 Crores with change in Outlook from 'Stable' to 'Negative' and withdraws the proposed secured listed redeemable NCD of Rs. 1000 Cr of Patanjali Ayurved Limited ('PAL' or 'the Company').

Particulars

Instrument	Issue Date	Amount (Rs. Cr)	Coupon Interest (%)	Tenure	ISIN Particulars	Previous Rating	Present
Proposed secured listed redeemable NCD Issue	Not Subscribed	1000.00	8.30% p.a. (tentative)	60 Months	N.A.	**BWR AA -** (Pronounced as BWR Double A Minus) **(Outlook Stable)**	**Rating Withdrawn***

** The rating for the said proposed NCD has been withdrawn as the client has advised that the said NCD was not subscribed as on date.*

Facility	Amount (₹ Crs)		Tenure	Rating*	
	Previous	Present		Previous (March, 2019)	Present
Fund based	**2512.15**	**2103.69**	**Long Term**	**BWR AA -** (Pronounced as BWR Double A Minus) **Outlook: Stable**	**BWR AA -** (Pronounced as BWR Double A Minus) **Outlook: Negative** (Reaffirmed)
Non Fund Based	**100.00**	**100.00**	**Short Term**	**BWR A1+** (Pronounced as BWR Single A One Plus)	**BWR A1+** (Pronounced as BWR Single A One Plus) (Reaffirmed)
Total	**2612.15**	**2203.69**	**INR Two Thousand & Two Hundred & Three Crores and Sixty Nine Lakhs Only**		

*Please refer to BWR website www.brickworkratings.com/ for definition of the ratings
#Facility-wise details of bank limits are available in Annexure I

RATING ACTION/OUTLOOK

The revision in the outlook to negative factors in the moderation in its interest coverage ratios and debt protection metrics owing to increased finance costs during FY19. PAL had also made significant investments in its Tezpur unit, which is yet to achieve break even, besides having invested in and extended loans of over Rs. 600 Crs to its various SPV's and subsidiaries, in order to support their capex at multiple locations. Many of these SPVs and subsidiaries are facing cost overruns and are yet to achieve their CODs. BWR also notes that PAL needs to recover around Rs. 187 Cr from its investments in various partnership firms which have since been dissolved or are currently non-functional. Owing to non-recovery of the blocked funds, PAL's working capital requirements are being met through higher utilization of bank limits, thereby impacting its net profit margins.

Going forward, PAL's dependence on debt funded capex (including the Ruchi Soya Industries Ltd takeover) may adversely impact its gearing and debt coverage indicators. The other constraints such as concentrated shareholding pattern, intense competition from other large FMCG players and absence of diversified board remain unchanged .

The rating reaffirmation, however, continues to draw strength from the Company's increasing turnover and operating profit levels despite facing intense competition and slowdown in the FMCG sector, besides the established market position of the Company supported by strong distribution network pan India, well diversified FMCG and agro-based product portfolio including a vast range of herbal and Ayurveda products, extensive brand building efforts and adequate reported cash accruals vis-a-vis its annual term repayment obligations.

KEY RATING DRIVERS

Credit Strengths:

Established market position with well diversified product portfolio: In a short span of 3 to 4 years, 'Patanjali' brand name has become prominent in the FMCG sector. It has established its market position, which is marked by strong and established pan India retail distribution network. Presently, PAL has a network of 110 super distributors which are supplying to 4000 distributors. Besides, it also supplies directly to around 5000 exclusive mega stores. PAL also has tie-ups with online retailers such as Amazon, Big-Basket, Flipkart, Paytm-Mall, Grofers, Shopclues, Snapdeal amongst others since Jan 2018.

Established brand name: Patanjali has become an established brand name with perception of PAL's products being healthy and natural alternatives. The brand is strongly associated with Yoga Guru Baba Ramdev, who is popular in India and abroad, though he is not formally involved in ownership or management of the Company.

Turnover & profitability levels improved: PAL has been able to maintain its turnover levels despite a slowdown in the FMCG market during FY19. Annual turnover improved from Rs. 8135.94 Crs in FY18 to Rs. 8522.69 Crs in FY19 due to sales efforts and an extended credit period given to some of its key distributors & the super distributors to boost sales.

Further, EBITDA improved owing to cut down in its advertisement expenses by ~ Rs. 300 Cr, reduction in GST burden by Rs. 37.50 Cr, efforts made to bring down the extent of damaged goods & other expenses etc during FY19. PAT improved marginally by Rs. 6.81 Cr despite increasing depreciation and higher interest costs.

Continuous R&D for the development of new products: PAL set up a new division for research & development in its own premises at Haridwar unit in FY18, which enabled it to launch new health care and other FMCG products as per the market demand. New products launched include dairy & frozen food, nutraceuticals, natural health supplements, packaged drinking water, products for pregnant & post natal mothers etc. which added to its revenue profile in FY19.

Credit Risks

Concentrated shareholding pattern: Acharya Balkrishna (M.D. of Patanjali Ayurved Limited) continues to remain a major shareholder, holding 98.54% in the company, resulting in concentration of ownership and control. The Patanjali brand has strong dependence on Acharyan Balkrishna and Yoga Guru Baba Ramdev. There is also absence of diversified board of directors to enforce transparency and disclosure. However, BWR notes that the company changed its statutory auditors to a leading Mumbai-based auditor. Further, the ability of the company to increase bandwidth at the board level remains a key rating sensitivity.

Significant financial support to its related parties: PAL made huge investments of over Rs. 600 Cr in its group and related entities during FY19 out of which Rs. 320 Cr was directly invested in various food parks which are either yet to commence operations or achieve break even. This is likely to impact its credit profile in case of any adversity happening on these related entities.

Further, PAL also invested around Rs 200 crore as a share capital in a SPV (i.e. Patanjali Consortium Adjograjan Pvt Ltd) which was formed for the purpose of acquisition of Ruchi Soya Industries Ltd. The funding for the said proposal is expected to be from the Patanjali Group and thus any higher than envisaged debt funded capex may adversely impact the gearing profile and debt coverage indicators of PAL.

Higher utilization in its working capital limits: Since majority of PAL's owned funds are blocked in various subsidiaries, its working capital requirements were met through higher utilization of bank limits and this resulted in higher interest burden in FY19. Receivables position of the company went up from Rs.1981.29 Cr to Rs. 2638.60 Cr as on 31 March 2019 on account of year-end sales efforts. Subsequently, PAL stretched its supplier payments resulting in an increase in trade payables from Rs. 1135.26 Cr to Rs.

2030.27 Cr as on 31 March 2019. However, PAL's receivable position declined to Rs. 2131.75 Cr in 8MFY20 and trade payables to Rs. 1333.48 Cr. .

Intense Competition from other FMCG players: PAL continues to face intense competition from other large FMCG players in the market. PAL lost its stand of having monopoly in ayurvedic and healthcare products as other FMCG players already entered into this market place and registered better turnover growth due to high penetration and strong supply chain & distribution network as compared to PAL.

ANALYTICAL APPROACH AND APPLICABLE RATING CRITERIA

For arriving at its ratings, BWR has considered the standalone performance of Patanjali Ayurved Limited. BWR has applied its rating methodology as detailed in the Rating Criteria (hyperlinks provided at the end of this rationale).

RATING SENSITIVITIES

PAL's performance is highly sensitive towards the higher than envisaged debt funded capex/investments which may impact its credit risk profile over the medium term.

Positive: The outlook may be revised to stable if, interalia, the Company is able to sustain its turnover and profitability growth, recover its all pending dues from earlier dissolved partnerships, maintain gearing ratio to below 1x amidst increasing overall debt position for its future capex (including Ruchi Soya Industries Ltd's acquisition), improve interest coverage ratio to above industry average levels and bring down its CC limit utilization to below 80% by timely receivables collections and utilize surplus for its working capital requirements over the medium term.

Negative: The rating may be downgraded if there is a further decline in its profitability margins, interest coverage ratios and debt protection metrics and moderation in its liquidity position.

LIQUIDITY POSITION

PAL has reported adequate liquidity position, supported by cash surplus of Rs. 480-500 Cr against average scheduled debt repayment of ~ Rs. 96 Cr. But cash position (including liquid investments like F.D.) of the Company continues to decline on account of GST disruption and supporting its increasing scale of operations and ongoing expansions. De-growth in its profit margins, higher than envisaged debt funded capex coupled with incremental working capital borrowings resulted in moderation in its credit profile. Its CC limit utilization remains close to above 90% throughout the year. Current ratio remains moderate at 1.22x due to increase in its working capital requirements during FY19.

PAL also needs to recover pending dues of Rs. 187.39 Crs (P.Y. Rs. 190.09 Cr) from the earlier dissolved partnership firms. The ability of the Company to recover the said due's will support its liquidity over the medium term.

COMPANY PROFILE

PAL is a flagship company of Patanjali Group and is engaged in the manufacturing & trading of FMCG, herbal & ayurvedic products. It was established in 2006 and later converted into a public limited company in 2007. It sells its products under the brand name of "PATANJALI"

PAL's major three manufacturing units are located in Haridwar along with peas processing unit in Uttarakhand. PAL has set up a new unit at Tezpur (Assam) in 2017 with a total investment of more than Rs. 700 Cr. It also acquired two other units, rice plant (Haryana) and dairy (Nevasa, MH) with a combined investment of around Rs. 175 Cr during 2017. Further, the Patanjali Group is in the process to establish more units in various states to support its growth & increase penetration towards newer markets. The total investments in fixed assets is expected to be ~ Rs. 3000 Crs for FY20.

Major (98.54%) of the Company's shareholding is held by Acharya Balkrishan (Managing Director).

KEY FINANCIAL INDICATORS

Particulars	**FY18 (A)**	**FY19 (A)**
Total Operating Income (Rs. Crs)	8135.94	8522.69
EBITDA (Rs. Crs)	732.38	866.86
PAT (Rs. Crs)	342.56	349.37
Total Tangible Net worth (Rs. Crs)	2521.43	2870.51
Total Debt to Equity Ratio (times)	1.12	0.81
ISCR (times)	4.07	3.54

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for the last three years (including withdrawn/suspended ratings)

S.No	**Facility**	**Current Rating (2019)**			**Rating History**		
		Type	Amount (₹ Crs)	Rating	30 Mar 2019	08 Jun 2018	31 Mar 2018
1	**Fund Based**	Long Term	2103.69	BWR AA - (BWR Double A Minus) (Outlook Negative)	BWR AA- (BWR Double A Minus) (Outlook Stable)	BWR AA (BWR Double A) (Outlook Stable)	BWR AA (BWR Double A) (Outlook Stable)

2	**Proposed NCD Issue**	Long Term	1000.00	Rating Withdrawn	BWR AA- (BWR Double A Minus) (Outlook Stable)	BWR AA (BWR Double A) (Outlook Stable)	N.A.
3	**Non Fund Based**	Short Term	100.00	BWR A1+ (BWR Single A One Plus)	BWR A1+ (BWR Single A One Plus)	BWR A1+ (BWR Single A One Plus)	BWR A1+ (BWR Single A One Plus)

#Annexure I

Details of Bank Facilities rated by BWR

S No.	Name of the Bank	Type of Facility	Long Term (Rs. Cr)	Short Term (Rs. Cr)	Total (Rs. Cr)
1	Punjab National Bank	Cash Credit BG/LC	600.00 -	- 100.00	**700.00**
2	HDFC Bank	Term Loan (Tezpur unit) Term Loan (Dairy unit) Term Loan (Rice unit) Cash Credit	108.75 14.00 25.67 60.00	-	**208.42**
3	State Bank of India	Vendor Financing TL Cash Credit	190.01 100.00	-	**290.01**
4	YES Bank	Term Loan (Tezpur unit) Cash Credit	88.47 250.00	-	**388.47**
5	Axis Bank	Term Loan (Tezpur unit) Short Term Loan Cash Credit	112.50 - 50.00	- 26.60 -	**189.10**
6	Bank of India	Cash Credit	30.00	-	**30.00**
7	Bank of Baroda	Short term loan	-	63.25	**63.25**
8	NABARD	Term Loan (Honey Processing Unit)	29.44	-	**29.44**
9	Syndicate Bank	WCDL	200.00	-	**200.00**

10	Federal Bank	Term Loan (Tezpur unit)	75.00	-	**75.00**
11	Union Bank of India	Cash Credit	30.00	-	**30.00**
TOTAL			**2013.84**	**189.85**	**2203.69**

Hyperlink/Reference to applicable Criteria

- General Criteria
- Manufacturing Companies
- Approach to Financial Ratios
- Short term Debt

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