

## Shree Subhlaxmi Foods Limited

March 02, 2021

### Ratings

Facilities / Instruments	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Long Term Bank Facilities	15.00	CARE B-; Stable; ISSUER NOT COOPERATING* (Single B Minus; Outlook: Stable ISSUER NOT COOPERATING*)	Revised from CARE B; Stable (Single B; Outlook: Stable) and moved to ISSUER NOT COOPERATING category
Total Facilities	15.00 (Rs. Fifteen Crore Only)		

*Details of facilities in Annexure-1*

### Detailed Rationale & Key Rating Drivers

CARE has been seeking information from Shree Subhlaxmi Foods Limited (SSFL) to monitor the ratings vide e-mail communications/ letters dated January 14, 2021, January 19, 2021, January 27, 2021, February 05, 2021, February 12, 2021 and numerous phone calls. However, despite our repeated requests, the company has not provided the requisite information for monitoring the ratings. In line with the extant SEBI guidelines, CARE has reviewed the rating on the basis of the best available information which however, in CARE's opinion is not sufficient to arrive at a fair rating. The rating on Shree Subhlaxmi Foods Limited bank facilities will now be denoted as **CARE B-; Stable; ISSUER NOT COOPERATING\***.

**Users of this rating (including investors, lenders and the public at large) are hence requested to exercise caution while using the above rating(s).**

The rating has been revised by taking into account non-availability of requisite information and no due-diligence conducted due to non-cooperation by Shree Subhlaxmi Foods Limited with CARE'S efforts to undertake a review of the rating outstanding. CARE views information availability risk as a key factor in its assessment of credit risk.

### Detailed description of the key rating drivers

*At the time of last rating on March 31, 2020 the following were the rating weaknesses and strengths:  
(Updated for the information available from the Registrar of Companies).*

### Detailed description of the key rating drivers

#### Key Rating Weaknesses

#### Small scale of operations

The operations of the company remained small as evident from total operating income and gross cash accruals of Rs. 43.49 crore and Rs. 0.67 crore, respectively in FY20 (refers to the period April 1 to March 31). Furthermore, the company's net worth base also remains relatively small at Rs.2.39 crore as on March 31, 2020. The small scale limits the company's financial flexibility in times of stress and deprives it of scale benefits.

#### Low profitability margins

The profitability margins of the company continue to remain low as marked by PBILDT and PAT margins of 4.86% and 0.14% respectively in FY20 as against 4.44% and 0.13% respectively in FY19. The PBILDT margin stood above 4.00% for the past three years, FY18-20 on account of low value addition and its presence in a competitive industry. However, high financial charges and depreciation cost restricted the net profitability of the company at 0.14% in FY20.

#### Leveraged capital structure and debt coverage indicators

The capital structure of the company continues to remain leveraged owing to higher dependence on external borrowings and low networth base as marked by overall gearing which stood above 7.00x for the balance sheet date of the past three financial years i.e. FY18-FY20. Further, higher dependence on external borrowings resulted in weak coverage indicators as marked by interest coverage ratio and total debt to GCA of 1.47x and 22.36x respectively in FY20 as against 1.50x and 21.33x respectively in FY19.

<sup>1</sup>Complete definitions of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and in other CARE publications

\*Issuer did not cooperate; Based on best available information

**Elongated operating cycle**

Operations of the company are working capital intensive in nature marked by operating cycle of 117 days in FY20. Being a seasonal product the company maintain adequate inventory of raw material (paddy) to cater to the milling and processing of rice throughout the year, resulting in inventory period of 155 days for FY20. Though the company usually sells for cash but to some customers it gives credit upto 8-15 days while procures the raw material usually on cash basis and gets a low credit period of 1-2 months from the suppliers.

**Business susceptible to the vagaries of nature**

Agro-based industry is characterized by seasonality, as it is dependent on the availability of raw materials, which varies with different harvesting periods. Paddy is the major raw material and the peak paddy procurement season is during October to January during which the company builds up raw material inventory to cater to the milling and processing of rice throughout the year. The monsoon has a huge bearing on crop availability which determines the prevailing paddy prices. Since there is a long time lag between raw material procurement and liquidation of inventory, the company is exposed to the risk of adverse price movement resulting in lower realization than expected.

**Presence in a highly fragmented and regulated nature of industry**

The commodity nature of the product makes the industry highly fragmented, with numerous players operating in the unorganized sector with very less product differentiation. There are several small scale operators which are not into end-to-end processing of rice from paddy, instead they merely complete a small fraction of processing and dispose-off semiprocessed rice to other big rice millers for further processing. Furthermore, the concentration of rice millers around the paddy growing regions makes the business intensely competitive. The raw material (paddy) prices are regulated by government to safeguard the interest of farmers, which in turn limits the bargaining power of the rice millers.

**Key Rating Strengths****Experienced Management**

SSFL's operations are currently being managed by Mr. Sudhir Maheshwari, Mr. Santosh Maheshwari and Mr. Udit Maheshwari. They are all graduates by qualification and have accumulated experience of more than two decades through their association in similar business.

**Favourable manufacturing location**

SSFL is mainly engaged in milling and processing of rice. The main raw material (paddy) is procured from local grain markets, mainly located in Uttar Pradesh. The company's processing facility is situated in Mainpuri, Uttar Pradesh. Its presence in the region gives additional advantage over the competitors in terms of easy availability of the raw material as well as favourable pricing terms. Moreover, owing to its location it is in a position to cut on the freight component of incoming raw materials.

**Analytical approach:** Standalone

**Applicable Criteria**

[Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings](#)

[Policy in respect of Non-cooperation by issuer](#)

[Financial ratios – Non-Financial Sector](#)

[CARE's Policy on Default Recognition](#)

[Liquidity Analysis of Non-Financial Sector Entities](#)

[Rating Methodology - Manufacturing Companies.](#)

**About the Company**

Uttar Pradesh based Shree Subhlaxmi Foods Limited (SSFL) was established on March 21, 2014 as a private limited and is currently managed by Mr. Sudhir Maheshwari, Mr. Santosh Maheshwari and Mr. Udit Maheshwari. SSFL is engaged in the milling, processing and trading of paddy at its manufacturing facility located in Mainpuri, Uttar Pradesh. The key raw material i.e. paddy is procured from local grain markets and sells its product i.e. different varieties of rice to wholesalers and traders located in Uttar Pradesh, and nearby regions through brokers/commission agents.

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	51.90	43.49
PBILDT	2.30	2.11
PAT	0.07	0.06
Overall gearing (times)	7.32	6.23
Interest coverage (times)	1.50	1.47

A: Audited

**Status of non-cooperation with previous CRA:** SMERA Ratings has conducted the review and has placed the rating to Issuer not cooperating as per press release dated November 27, 2020.

**Any other information:** Not Applicable

**Rating History for last three years:** Please refer Annexure-2

#### Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	9.00	CARE B-; Stable; ISSUER NOT COOPERATING*
Fund-based - LT-Term Loan	-	-	-	4.30	CARE B-; Stable; ISSUER NOT COOPERATING*
Fund-based-Long Term	-	-	-	1.70	CARE B-; Stable; ISSUER NOT COOPERATING*

\*Issuer did not cooperate; Based on best available information

#### Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Cash Credit	LT	9.00	CARE B-; Stable; ISSUER NOT COOPERATING*	-	1)CARE B; Stable (31-Mar-20)	1)CARE B; Stable (04-Mar-19)	-
2.	Fund-based - LT-Term Loan	LT	4.30	CARE B-; Stable; ISSUER NOT COOPERATING*	-	1)CARE B; Stable (31-Mar-20)	1)CARE B; Stable (04-Mar-19)	-
3.	Fund-based-Long Term	LT	1.70	CARE B-; Stable; ISSUER NOT COOPERATING*	-	1)CARE B; Stable (31-Mar-20)	1)CARE B; Stable (04-Mar-19)	-

\*Issuer did not cooperate; Based on best available information

**Annexure-3: Detailed explanation of covenants of the rated instrument / facilities:** Not Applicable

**Annexure 4: Complexity level of various instruments rated for this Company**

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Cash Credit	Simple
2.	Fund-based - LT-Term Loan	Simple
3.	Fund-based-Long Term	Simple

**Note on complexity levels of the rated instrument:** CARE has classified instruments rated by it on the basis of complexity. This classification is available at [www.careratings.com](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

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**About CARE Ratings:**

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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Our ratings do not factor in any rating related trigger clauses as per the terms of the facility/instrument, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and if triggered, the ratings may see volatility and sharp downgrades.

**\*\*For detailed Rationale Report and subscription information, please contact us at [www.careratings.com](http://www.careratings.com)**