

Shiv Health Foods LLP

February 23, 2021

Ratings

Facilities/Instruments	Amount (Rs. crore)	Ratings ¹	Rating Action
Long Term Bank Facilities	30.12	CARE BBB; Stable; ISSUER NOT COOPERATING* (Triple B; Outlook: Stable ISSUER NOT COOPERATING*)	Rating moved to ISSUER NOT COOPERATING category
Long Term / Short Term Bank Facilities	20.00	CARE BBB; Stable / CARE A3+; ISSUER NOT COOPERATING* (Triple B; Outlook: Stable/ A Three Plus ISSUER NOT COOPERATING*)	Rating moved to ISSUER NOT COOPERATING category
Total Bank Facilities	50.12 (Rs. Fifty Crore and Twelve Lakhs Only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

CARE has been seeking information from Shiv Health Foods LLP (SHF) to monitor the ratings vide e-mail communications dated January 27, 2021, February 01, 2021, February 02, 2021, February 03, 2021 and numerous phone calls. However, despite our repeated requests, the firm has not provided the requisite information for monitoring the ratings. Furthermore, SHF has also not paid the surveillance fees for the rating exercise agreed to in its Rating Agreement. In line with the extant SEBI guidelines, CARE has reviewed the ratings on the basis of the available information which however, in CARE's opinion is not sufficient to arrive at a fair rating. The rating of SHF's bank facilities will now be denoted as **CARE BBB; Stable/ CARE A3+; 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.

The ratings continue to derive strength from the vast experience of its promoters along with established network of milk collection and chilling centers. The ratings also draw strength from its moderate profitability, moderate capital structure and debt coverage indicators.

The ratings, however, continue to remain constrained on account of its constitution as a limited liability partnership concern, environment-related risk associated with milk collection, geographical concentration of operations, susceptibility of its profitability to volatility associated with agro-based raw material prices along with presence in a fragmented and an intensely competitive milk processing and soya business.

Detail description of the key rating drivers

Key Rating Strengths

Experienced promoters with long track record of operations: SHF is a limited liability partnership firm with a family centric management. The entity is part of Shiv Group, promoted by the Saboo family of Kota, which has long track record of operations. The promoters have vast experience in agro processing business through other group entities.

Growth in total operating income with moderate profitability: Total operating income of the firm improved by 17.40% to Rs.279.81 crore on y-o-y basis. However, PBILDT margin of the firm deteriorated by 589 bps to 9.66% on account of higher cost of raw material consumed and proportionately higher employee cost. Further, PBILDT margin stood at 13.82% during H1FY21. However, PAT margin stood at 1.63% against net losses incurred in FY19. Furthermore, PAT margin stood at 3.91% during H1FY21. Due to decline in operating profitability, its GCA also deteriorated by 33.53% and stood at Rs.18.83 crore in FY20 against Rs.28.33 crore in FY19. During FY17, the firm undertook debt funded diversification project for setting up of plant for manufacturing of soya proteins with installed capacity of 10 MTPD. SHF incurred total cost of Rs.103.40 crore funded through partners' capital of Rs.18.95 crore, term loan of Rs.41.20 crore, unsecured loans of

¹Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications

*Issuer did not cooperate; Based on best available information

Rs.36.21 crore, creditors of Rs.2.28 crore and remaining through internal accruals. The project achieved commercial operations in May 2018. However, ISP division has continued to incur losses during last 2 Financial Years ending FY20 which has impacted firm's profitability to some extent.

Established procurement and marketing arrangement: SHF has nine milk collection and chilling centres in seven districts of Madhya Pradesh and Rajasthan having milk storage capacity of 4 Lakh liters per day (LLPD). Established milk procurement centers ensure its steady availability for SHF. SHF sells packaged milk under the brand name 'Kota Fresh' in Rajasthan (majority) while to some extent in Madhya Pradesh and Gujarat. Further, SHF has started selling dairy products on railway stations. In addition, the firm sells other milk products like skimmed milk powder (SMP), butter, ghee, paneer, curd, etc. SHF has been successful in increasing its product penetration through a strong distribution network, selling its products to 35 distributors, institutions and bulk customers. Further for ISP unit, SHF sources raw material such as soya grit and soya flour from its group concern Shiv Vegpro Private Limited.

Moderate capital structure and debt coverage indicators: Capital structure of the firm stood moderate with overall gearing of 1.13 times as on March 31, 2020, improved from 1.17 times as on March 31, 2019 mainly on account of increase in net worth base backed by accretion of profit to reserve. However, debt coverage indicators have deteriorated from FY19 level albeit stood moderate with total debt to GCA of 3.71 times as on March 31, 2020 as compared to 2.39 times as on March 31, 2019 owing to higher total debt level as on balance sheet date as well as decline in GCA level in FY20. Further, its PBILDT interest coverage deteriorated from 4.25 times in FY19 to 3.30 times in FY20 due to lower operating profitability. The firm's current ratio and quick ratio stood at 4.62 times and 1.51 times respectively as on March 31, 2020. Further, the operating cycle of the firm elongated to 35 days in FY20 from 23 days in FY19 due to increase in average inventory holding period.

Key Rating Weaknesses

Constitution as a limited liability partnership concern: SHF's constitution as a limited liability partnership firm with low capital base restricts its overall financial flexibility in terms of limited access to external funding for any future expansion plans. There is also the inherent risk of withdrawal of capital and dissolution of the firm in case of death/ insolvency of the partners. Any significant withdrawals from the capital account will affect its capital structure. However, during FY20, there was withdrawal of capital by the partners to the tune of Rs.0.50 crore in FY20. Further, SHF has fixed capital of Rs.35.50 crore received from the partners.

Exposed to environment-related risks associated with milk collection: SHF collects its entire milk from its milk procurement centers spread across 7 districts of Rajasthan and Madhya Pradesh. SHF's milk procurement channel has grown over past few years, nevertheless, geographical concentration in milk procurement exposes it to environmental risks such as epidemic which could adversely affect its milk supply. Geographical diversification in milk procurement network shall be crucial from credit perspective.

Susceptibility of its profitability to volatility associated with agro-based raw material prices along with presence in a fragmented and an intensely competitive milk processing and soya business: SHF faces competition in the dairy segment from other established brands in the organized market. The competition gets fiercer with presence of unorganized players leading to pricing pressures. SHF's profitability is susceptible to the movement in the prices of soya bean. The prices of soya-based products are governed by the demand-supply dynamics prevalent in major soya-growing nations, weather conditions and prices of substitute edible oils. A domestic production of soya seed, in turn, is dependent on area under cultivation, adequacy of monsoon, prices of other competing crops, Minimum Support Price (MSP) and other incentives offered by the Government of India. Currently, in India, the prices of soya bean has witnessed an increasing trend owing to high demand and heavy rain at the time of sowing. Further, SHF faces stiff competition from imports majorly from China.

Geographical concentration of operations: The firm is based in the state of Rajasthan and is hence susceptible to the geographic concentration arising out of sales. SHF sells majority of its product in nearby vicinity of Kota (Rajasthan). Further, the current sales of the firm are balanced in terms of exposure to B2B sales and B2C sales. However, with more focus on B2C sales and envisaged increase in product profile (Milk Powder, instant dairy creamer, yogurt, cheese etc.), the B2B sales is expected to reduce, going ahead.

Analytical Approach-Standalone

Applicable Criteria:

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

[Criteria on assigning 'Outlook' and 'Credit Watch' to Credit Ratings](#)

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

[Rating Methodology-Manufacturing Companies](#)

[Criteria for Short Term Instruments](#)

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

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

About the Firm

Kota based (Rajasthan); Shiv Health Foods LLP (SHF) is a limited liability partnership (LLP) established in 2010 by five partners comprising members from Saboo family (i.e. promoter's family) and a corporate entity Shiv Agrevo Limited, (having 35% holding in SHF). SHF, an ISO 22000:2005 compliant and a Food Safety Management Systems (FSMS) certified entity, is engaged in the business of processing milk and producing milk products from its manufacturing facility located in Kota, Rajasthan under the band name of 'Kota Fresh'. Further, SHF had started plant for manufacturing of soya proteins with installed capacity of 10 MTPD in Kota and sell under its own brand name 'Prowise'.

Brief Financials (Rs. crore)	FY19 (A)	FY20(A)
Total operating income	238.33	279.81
PBILDT	37.06	27.03
PAT	-6.23	4.55
Overall gearing (times)	1.17	1.13
Interest coverage (times)	4.25	3.30

A-Audited

As per provisional results for H1FY21, SHF has reported TOI of Rs.110.96 crore with PAT of Rs.4.34 crore.

Status of non-cooperation with previous CRA: None

Any other information: Not Applicable

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

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure 4

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-Term Loan	-	-	March, 2026	30.12	CARE BBB; Stable; ISSUER NOT COOPERATING*
Fund-based - LT/ ST-Cash Credit	-	-	-	20.00	CARE BBB; Stable / CARE A3+; 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-Term Loan	LT	30.12	CARE BBB; Stable; ISSUER NOT COOPERATING*	-	1)CARE BBB; Stable (20-Feb-20)	1)CARE BBB; Stable (03-Jan-19)	1)CARE BBB; Stable (26-Oct-17)
2.	Fund-based - LT/ ST-Cash Credit	LT/ST	20.00	CARE BBB; Stable / CARE A3+; ISSUER NOT COOPERATING*	-	1)CARE BBB; Stable / CARE A3+ (20-Feb-20)	1)CARE BBB; Stable / CARE A3+ (03-Jan-19)	1)CARE BBB; Stable / CARE A3+ (26-Oct-17)

*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-Term Loan	Simple
2.	Fund-based - LT/ ST-Cash Credit	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. Investors/market intermediaries/regulators or others are welcome to write to 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.