MEGASTAR FOODS PRIVATE LIMITED

May 03, 2017

Rating

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long-term Bank Facilities	16	**CARE BB- ; Stable (Double B Minus ; Outlook: Stable)**	**Assigned**
Total Facilities	**16 (Rupees Sixteen crore only)**		

Details of instruments/facilities in Annexure-I

Detailed Rationale and key rating drivers

The rating assigned to the bank facilities of Megastar Foods Private Limited (MFPL) is constrained by its modest scale of operation, low profitability margins and weak solvency position. The rating is further constrained by the volatility in raw material prices influenced by government policies and fragmented & competitive nature of the industry. The rating, however, derives strength from experienced promoters, demand being insulated from economic cycle and reputed & diversified customer base of the company.

Going forward, the ability of the company to scale up its operations while improving its profitability margins and overall solvency position would be the key rating sensitivities.

Detailed description of the key rating drivers

Strengths

Experienced promoters

MFPL is engaged in the business of processing of wheat for around three years and is currently being managed by Mr Vikas Gupta and Mr Vikas Goyal. Mr Vikas Gupta has an industry experience of around two decades while Mr Vikas Goyal has an industry experience of three and a half decades.

Moderate operating cycle

MFPL maintains inventory of raw materials and finished goods which has led to average inventory period of around 25 days for FY16 (refers to the period April 01 to March 31). Furthermore, the company offers an average collection period of around 36 days to its customers in FY16. The procurement of raw material is mainly on cash basis. All this has lead to an average operating cycle of 60 days for FY16. The working capital limits remained fully utilized for the 12 months period ended August, 2016.

Demand is relatively insulated from economic cycles

The flour milling industry has witnessed consistent growth in the past few years, largely driven by FMCG companies and dictated by the lifestyle changes in the urban and semi-urban regions of the country. This is expected to act as a steady and sustained growth driver for the wheat flour milling industry. Also, since the industry mainly caters to the basic needs of the consumer, the industry is relatively insulated from the economic cycles.

Reputed and diversified customer base

MFPL is engaged in the business of processing of wheat and supplies about 6% of the produce to reputed corporates such as Nestle India , Glaxo Smith Kline, United Biscuits and Pepsico India. Furthermore, the company also sells the finished products to local wholesale dealers located in Punjab and Himachal Pradesh and exports in Europe & UAE as well.

Weaknesses

Modest scale of operation

The company's scale of operations has remained modest marked by Total Operating Income (TOI) of Rs.78.04 crore in FY16 and net-worth base of Rs.6.30 crore as on March 31, 2016. The modest scale limits the company's financial flexibility in times of stress and deprives it from scale benefits.

Low profitability margins and weak solvency position

The profitability margins of the company stood low marked by PBILDT margin and PAT margin of 4.34 % and 1.50% respectively in FY16.

Furthermore, the capital structure of the company is leveraged with overall gearing ratio of 3.82x as on March 31, 2016. The debt coverage indicators of MFPL stood weak marked by interest coverage ratio of 1.71x in FY16 and total debt to GCA of 17.07x for FY16.

Volatility in raw material prices influenced by government policies

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

Prices of wheat are subject to government intervention since it is an agricultural produce and staple food. Various restrictions including minimum support price, control on exports, wheat procurement policies for maintenance of buffer stocks etc. are imposed to regulate the price of wheat in the market. Thus, any volatility in wheat prices can have a direct impact on the profitability margins of the company.

Fragmented and competitive 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. In addition, launch of innovative strategy (such as competitive pricing, aggressive advertisement campaign, celebrity endorsements, etc.) by large multinationals to gain market share has increased the competition intensity as well.

Analytical Approach: Standalone

Applicable Criteria

CARE's Criteria on assigning Outlook to Credit Ratings

CARE's Policy on Default Recognition

CARE's methodology for manufacturing companies

Financial ratios –Non-Financial Sector

About the company

Megastar Foods Private Limited (MFPL) was incorporated in 2011 as a private limited company and is currently being managed by Mr Vikas Gupta and Mr Vikas Goyal. However, the operations commenced in October, 2013. The company is currently engaged in the processing of wheat at its manufacturing facility located in Roopnagar, Punjab with an installed capacity of 91200 metric tonnes per annum. The product line of the company mainly comprises of Flour, semolina, white flour, bran and whole wheat flour. MFPL sells wheat flour and other products to food products manufacturing companies including large renowned corporates. The products are also sold to wholesalers based in Punjab and Himachal Pradesh through a network of dealers. MFPL is also engaged in export of its products to Europe and UAE. [income from exports constituted around 7% of the total revenue in FY16(refers to the period April 01 to March 31)]. MFPL procures the raw material i.e. wheat from Food Corporation of India (FCI) and also directly from farmers and local dealers located in Punjab and Haryana.

In FY16, MFPL has achieved a total operating income (TOI) of Rs.78.04 crore with PAT of Rs.0.64 crore as against total operating income of Rs.44.50 crore with PAT of Rs.-0.31 crore in FY15. In FY17 (Provisional), the company has achieved TOI of Rs.97.67 crore.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History (Last three years): Please refer Annexure-2

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:

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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	-	-	-	16.00	CARE BB-; Stable

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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Fund-based - LT-Cash Credit	LT	16.00	CARE BB-; Stable	-	-	-	-

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CIN - L67190MH1993PLC071691