Megastar Foods Private Limited

November 28, 2017

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long term Bank Facilities	16.00	**CARE BB-; ISSUER NOT COOPERATING* (Double B Minus; ISSUER NOT COOPERATING*)**	Issuer not cooperating
Total	**16.00 (Rs. Sixteen crore only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale and key rating drivers

CARE has been seeking information from Megastar Foods Private Limited to monitor the rating(s) vide e-mail communications/letters dated November 6, 2017 and numerous phone calls. However, despite our repeated requests, the company has not provided the requiste information for monitoring the ratings. **In the absence of minimum information required for the purpose of rating, CARE is unable to express opinion on the rating.** In line with the extant SEBI guidelines CARE's rating on Megastar Foods Private Limited's bank facilities will now be denoted as **CARE BB-; 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).

Detailed description of the key rating drivers

At the time of last rating on October 17, 2016 the following were the rating strengths and weaknesses

Key Rating Weaknesses

Modest scale of operations

The company's scale of operations has remained modest marked by Total Operating Income (TOI) of Rs.78.04 crore in FY16 (refers to the period April 1 to March 31) and net-worth base of Rs.6.30 crore as on March 31, 2016. small scale of operations limits the company's financial flexibility in times of stress and deprives it from scale benefits. However, the scale of operations witnessed an increasing trend during FY14 to FY16 period as Total Operating Income (TOI) of the company increased from Rs.7.85 crore in FY14 to Rs.78.04 crore in FY16 at a compounded annual growth rate of 215 % owing to increase in quantity sold . In FY17 (Provisional), the company has achieved TOI of Rs. 97.67 crore.

Low profitability margins and weak solvency position

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

The profitability margins of the company stood low marked by PBILDT margin and PAT margin of 4.34 % and 1.50% respectively in FY16. PBILDT margin declined from 6.49% in FY14 to 4.52% in FY15 as the company compromised on the margins to garner increased market share. The PAT margins remained below unity in FY16 on account of high depreciation and interest expenses

Furthermore, the capital structure of the company is leveraged with overall gearing ratio of 3.82x as on March 31, 2016. The same deteriorated from 2.52x as on March 31, 2015 mainly on account of higher utilization of working capital limits as on last balance sheet date as compared to previous year coupled with infusion of additional unsecured loans in FY16.

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

The main raw material for production of wheat flour is wheat. 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. The price of wheat is also influenced by the supply scenario which is susceptible to the agro-climatic conditions. 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. This results in limited flexibility over product pricing for the players in the industry.

Key Rating Strengths

Experienced promoters

MFPL is engaged in the business of processing of wheat for around three years and is currently being managed by MrVikas Gupta and MrVikasGoyal. MrVikas Gupta has an industry experience of around two decades while MrVikasGoyal has an industry experience of three and a half decades. Both the directors have accumulated this experience through their association with MFPL and other regional entities engaged in the same business.

Moderate operating cycle

MFPL maintains inventory of raw materials for smooth production process and also maintains inventory of finished goods to meet the uncertain demand of the customers which has led to average inventory period of around 25 days for FY16. Furthermore, the company offers reasonable credit period to its customers which resulted in average collection period of around 36 days, for FY16. On the other hand, the procurement of raw material is mainly on cash basis. This led 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, people are being exposed to the wheat-based western cuisines, in place of rice-based local cuisines. 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.

Analytical approach: Standalone

Applicable Criteria

Policy in respect of Non-cooperation by issuer

Criteria on assigning Outlook to Credit Ratings

CARE's methodology for manufacturing companies

Financial ratios – Non-Financial Sector

CARE's Policy on Default Recognition

About the Company

Megastar Foods Private Limited (MFPL) was incorporated in 2011 as a private limited company and is currently being managed by MrVikas Gupta and MrVikasGoyal. 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 tonnesper 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]. 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.

Brief Financials (Rs. crore)	FY15 (A)	FY16 (A)
Total operating income	44.50	78.04
PBILDT	2.01	3.39
PAT	-0.31	0.64
Overall gearing (times)	2.52	3.82
Interest coverage (times)	1.59	1.71

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for 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:

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.

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; ISSUER NOT COOPERATING*

**Issuer did not co-operate*

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; ISSUER NOT COOPERATING*	1)CARE BB-; Stable (03-May-17)	-	-	-

**Issuer did not co-operate*

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CIN - L67190MH1993PLC071691