

Shiv Flour Mill

March 18, 2019

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long term Bank Facilities	8.30	CARE B+; Stable; ISSUER NOT COOPERATING* (Single B Plus; Outlook: Stable; ISSUER NOT COOPERATING)	Issuer not cooperating; Revised from CARE BB-; Stable on the basis of best available information
Short term Bank Facilities	16.00	CARE A4; ISSUER NOT COOPERATING (A Four; ISSUER NOT COOPERATING)	Issuer not cooperating; Based on best available information
Total	24.30 (Rupees Twenty Four Crore and Thirty Lakh Only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

CARE has been seeking information from **Shiv Flour Mill (SFM)** to monitor the rating vide e-mail communications/letters dated April 13, 2018, May 22, 2018, June 11, 2018, June 18, 2018, March 11, 2019 and numerous phone calls. However, despite our repeated requests, the company has not provided the requisite information for monitoring the rating. In line with the extant SEBI guidelines, CARE has reviewed the rating on the basis of the publicly available information which however, in CARE's opinion is not sufficient to arrive at a fair rating. The rating on SFM's bank facilities will now be denoted as **CARE B+;Stable/CARE A4; ISSUER NOT COOPERATING**. However, banker could not be contacted

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

The revision in the rating takes into account its partnership nature of business, volatile agro-commodity (flour) prices with linkages to vagaries of the monsoon and regulated nature of the industry, intensely competitive nature of the industry with presence of many unorganised players, working capital intensive nature of operation and moderately weak financial risk profile marked by relatively small size of operation with low profit margins, leveraged capital structure and weak liquidity. The ratings, however, derive strength from its experienced partners, satisfactory growth prospects of the industry and proximity to raw material sources.

Detailed description of the key rating drivers

At the time of last rating in April 04, 2018 the following were the rating strengths and weaknesses:

Key Rating Weaknesses

Partnership nature of business: SFM, being a partnership firm, is exposed to inherent risk of partner's capital being withdrawn at time of personal contingency. Furthermore, limited ability to raise capital and poor succession planning may result in dissolution of the firm.

Volatile agro-commodity (flour) prices with linkages to vagaries of the monsoon and regulated nature of the industry:

SFM is primarily engaged in the processing of wheat products under its roller mills. Wheat being an agricultural produce and staple food, its price is subject to intervention by the government. In the past, the prices of wheat have remained volatile mainly on account of the government policies in respect of Minimum Support Price (MSP) & controls on its exports. The MSP of wheat for 2016-17 is Rs.1625/quintal increased from Rs.1525/quintal in 2015-16. Furthermore to be noted, the prices of wheat are also sensitive to seasonality, which is highly dependent on monsoon. Any volatility in the wheat prices will have an adverse impact on the performance of the flour mill.

Intensely competitive nature of the industry with presence of many unorganised players: Flour milling industry is highly fragmented and competitive due to presence of many players operating in this sector owing to its low entry barriers, due to low capital and technological requirements. West Bengal and nearby states are a major wheat growing area with many flour mills operating in the area. High competition restricts the pricing flexibility of the industry participants and has a negative bearing on the profitability.

Working capital intensive nature of operation: Wheat is primarily a Rabi crop in India i.e. its cultivation takes place in winter and the same is traded/ procured by flour millers throughout the year. Hence, the millers are required to carry high levels of raw material inventory in order to mitigate the raw material availability risk, resulting in relatively high inventory period. Furthermore, wheat is mainly sourced on cash payment. Accordingly, the working capital intensity

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

remained high as reflected through average utilization of working capital limits which stood at around 90% in the last 12 months ending February 2018.

Moderately weak financial risk profile marked by relatively small size of operation with low profit margins, leveraged capital structure and weak liquidity: SFM is a relatively small player in flour milling business with revenue and PAT of Rs. 35.55 crore and Rs. 0.87 crore respectively in FY17. Furthermore, the total capital employed was also modest at Rs.12.97 crore as on March 31, 2017. The small scale restricts the financial flexibility of the firm in times of stress. This apart, though the PBILDT margin is moderate at 8.74% during FY17, the PAT margin is low at 2.45% during the same period. Furthermore, the firm has earned a turnover of Rs.26.88 crore during 11MFY18.

The capital structure of the firm is moderately leveraged marked by above unity overall gearing ratio at 1.33x as on March 31, 2017. However, the same has improved on the back of repayment of term loan and accretion of profit to reserve. Interest coverage ratio was comfortable at 2.81x during FY17. However, current ratio remains below unity as on March 31, 2017 on account of high current portion of long-term debt.

Key Rating Strengths

Experienced partners: SFM is currently managed by Mr Niranjana Bhakat, Managing partner, having over three decades of experience in the similar line of business. This apart, all other five partners are also having over a decade of experience in similar industry.

High growth prospects of the industry: Wheat based products, viz. Maida, Suji and Atta have large consumption across the country in the form of bakery products, cakes, biscuits and different types of food dishes in home and restaurants. The demand has been driven by the rapidly changing food habits of the average Indian consumer, dictated by the lifestyle changes in the urban and semi-urban regions of the country.

Proximity to raw material sources: SFM's unit has close proximity to local grain markets and major raw material procurement destinations. Furthermore, West Bengal and nearby states are one of the major wheat producing area in India. Accordingly, SFM has locational advantage in terms of proximity to raw material. This apart, the plant is located in the vicinity of industrial area of West Bengal, having good transportation facilities and other requirements like good supply of power, water etc.

Analytical approach: Standalone

Applicable Criteria

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

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

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

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

[CARE's methodology for manufacturing companies](#)

[Criteria for Short Term Instruments](#)

About the Company

Shiv Flour Mill (SFM), established in December, 2011 as a partnership firm in the view of initiating a flour milling business in West Bengal. Currently, the firm is operating as per partnership deed signed on February 2012. The firm has installed its manufacturing facility at Mathurapur in Murshidabad with an installed capacity of 36,000 MTPA. SFM commenced commercial production from October 2014. The firm manufactures different flour qualities like "Atta", "Maida" and "Suji" etc. SFM procures wheat from wholesalers and commission agents present in local grain markets and sell its products to wholesale traders in the nearby states like West Bengal, Bihar, Orissa.

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)
Total operating income	36.34	35.55
PBILDT	3.17	3.11
PAT	0.62	0.87
Overall gearing (times)	1.82	1.33
Interest coverage (times)	2.55	2.81

A: Audited

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.

Analyst Contact

Name: Mr Soumen Das

Tel: (033) 40581907/40581905

Mobile: +91 98305 87029

Email: soumen.das@careratings.com

****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**

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.

Disclaimer

CARE's ratings are opinions on credit quality and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE has based its ratings/outlooks on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments.

In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

Annexure-1: Details of Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	March 2020	5.34	CARE B+; Stable; ISSUER NOT COOPERATING* Issuer not cooperating; Revised from CARE BB-; Stable on the basis of best available information
Fund-based - LT-Cash Credit	-	-	-	2.96	CARE B+; Stable; ISSUER NOT COOPERATING* Issuer not cooperating; Revised from CARE BB-; Stable on the basis of best available information
Non-fund-based - ST-Bank Guarantees	-	-	-	16.00	CARE A4; ISSUER NOT COOPERATING* Issuer not cooperating; 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. Cr)	Rating	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT-Term Loan	LT	5.34	CARE B+; Stable; ISSUER NOT COOPERATING* Issuer not cooperating; Revised from CARE BB-; Stable on the basis of best available information	1)CARE BB-; Stable (04-Apr-18)	1)CARE BB-; Stable (07-Jun-17)	-	-
2.	Fund-based - LT-Cash Credit	LT	2.96	CARE B+; Stable; ISSUER NOT COOPERATING* Issuer not cooperating; Revised from CARE BB-; Stable on the basis of best available information	1)CARE BB-; Stable (04-Apr-18)	1)CARE BB-; Stable (07-Jun-17)	-	-
3.	Non-fund-based - ST-Bank Guarantees	ST	16.00	CARE A4; ISSUER NOT COOPERATING* Issuer not cooperating; Based on best available information	1)CARE A4 (04-Apr-18)	-	-	-

CONTACT

Head Office Mumbai

Ms. Meenal Sikchi
 Cell: + 91 98190 09839
 E-mail: meenal.sikchi@careratings.com

Ms. Rashmi Narvankar
 Cell: + 91 99675 70636
 E-mail: rashmi.narvankar@careratings.com

Mr. Ankur Sachdeva
 Cell: + 91 98196 98985
 E-mail: ankur.sachdeva@careratings.com

Mr. Saikat Roy
 Cell: + 91 98209 98779
 E-mail: saikat.roy@careratings.com

CARE Ratings Limited

(Formerly known as Credit Analysis & Research Ltd.)

Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022
 Tel: +91-22-6754 3456 | Fax: +91-22-6754 3457 | E-mail: care@careratings.com

AHMEDABAD

Mr. Deepak Prajapati
 32, Titanium, Prahaladnagar Corporate Road,
 Satellite, Ahmedabad - 380 015
 Cell: +91-9099028864
 Tel: +91-79-4026 5656
 E-mail: deepak.prajapati@careratings.com

BENGALURU

Mr. V Pradeep Kumar
 Unit No. 1101-1102, 11th Floor, Prestige Meridian II,
 No. 30, M.G. Road, Bangalore - 560 001.
 Cell: +91 98407 54521
 Tel: +91-80-4115 0445, 4165 4529
 Email: pradeep.kumar@careratings.com

CHANDIGARH

Mr. Anand Jha
 SCF No. 54-55,
 First Floor, Phase 11,
 Sector 65, Mohali - 160062
 Chandigarh
 Cell: +91 85111-53511/99251-42264
 Tel: +91- 0172-490-4000/01
 Email: anand.jha@careratings.com

CHENNAI

Mr. V Pradeep Kumar
 Unit No. O-509/C, Spencer Plaza, 5th Floor,
 No. 769, Anna Salai, Chennai - 600 002.
 Cell: +91 98407 54521
 Tel: +91-44-2849 7812 / 0811
 Email: pradeep.kumar@careratings.com

COIMBATORE

Mr. V Pradeep Kumar
 T-3, 3rd Floor, Manchester Square
 Puliakulam Road, Coimbatore - 641 037.
 Tel: +91-422-4332399 / 4502399
 Email: pradeep.kumar@careratings.com

HYDERABAD

Mr. Ramesh Bob
 401, Ashoka Scintilla, 3-6-502, Himayat Nagar,
 Hyderabad - 500 029.
 Cell : + 91 90520 00521
 Tel: +91-40-4010 2030
 E-mail: ramesh.bob@careratings.com

JAIPUR

Mr. Nikhil Soni
 304, Pashupati Akshat Heights, Plot No. D-91,
 Madho Singh Road, Near Collectorate Circle,
 Bani Park, Jaipur - 302 016.
 Cell: +91 – 95490 33222
 Tel: +91-141-402 0213 / 14
 E-mail: nikhil.soni@careratings.com

KOLKATA

Ms. Priti Agarwal
 3rd Floor, Prasad Chambers, (Shagun Mall Bldg.)
 10A, Shakespeare Sarani, Kolkata - 700 071.
 Cell: +91-98319 67110
 Tel: +91-33- 4018 1600
 E-mail: priti.agarwal@careratings.com

NEW DELHI

Ms. Swati Agrawal
 13th Floor, E-1 Block, Videocon Tower,
 Jhandewalan Extension, New Delhi - 110 055.
 Cell: +91-98117 45677
 Tel: +91-11-4533 3200
 E-mail: swati.agrawal@careratings.com

PUNE

Mr. Pratim Banerjee
 9th Floor, Pride Kumar Senate,
 Plot No. 970, Bhamburda, Senapati Bapat Road,
 Shivaji Nagar, Pune - 411 015.
 Cell: +91-98361 07331
 Tel: +91-20- 4000 9000
 E-mail: pratim.banerjee@careratings.com

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