

## Shiv Flour Mill

### May 12, 2020

#### Ratings

Facilities	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Long term Bank Facilities	8.30	CARE B; Stable; ISSUER NOT COOPERATING* (Single B; Outlook: Stable; Issuer Not Cooperating)	Revised From CARE B+; Stable; Issuer Not Cooperating (Single B Plus; Outlook: Stable); Issuer Not Cooperating; Based on best available information)
Short term Bank Facilities	16.00	CARE A4; ISSUER NOT COOPERATING* (A Four; Issuer Not Cooperating)	Issuer Not Cooperating; Based in best available information
<b>Total</b>	<b>24.30</b> <b>(Rupees Twenty Four crore and Thirty Lakh only)</b>		

\*Details of facilities in Annexure-1

#### Detailed Rationale & Key Rating Drivers

CARE has been seeking information from Shiv Flour Mill (SFM) to monitor the ratings vide e-mail communications/letters dated May 04, 2020, May 06, 2020, May 07, 2020 and numerous phone calls. However, despite our repeated requests, the entity has not provided the requisite information for monitoring the ratings. In line with the extant SEBI guidelines, CARE has reviewed the ratings on the basis of the publicly available information which, however, in CARE's opinion is not sufficient to arrive at a fair rating. The ratings of Shiv Flour Mill's bank facilities will now be denoted as **CARE B; Stable/CARE A4; ISSUER NOT COOPERATING**. Further, the banker could not be contacted.

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

The ratings assigned to the bank facilities of Shiv Flour Mill are constrained by its partnership nature of business, volatility agro-commodity (flour) prices with linkage to vagaries of monsoon and regulated nature of the industry, intensely competitive nature of the industry with presence of many unorganized 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. However, the aforesaid constraints are partially offset by its experienced partnership, high growth prospectus of the industry and proximity to raw materials sources.

#### Detailed description of the key rating drivers

At the time of last rating in March 13, 2019 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.

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

**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 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 Entity

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:** Issuer Not Cooperating from Crisil as per press release dated February 18, 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-Term Loan	-	-	March 2020	5.34	CARE B; Stable; ISSUER NOT COOPERATING* Issuer not cooperating; Revised from CARE B+; Stable; ISSUER NOT COOPERATING* 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 B+; Stable; ISSUER NOT COOPERATING* 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. 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	5.34	CARE B; Stable; ISSUER NOT COOPERATING* Issuer not cooperating; Revised from CARE B+; Stable; ISSUER NOT COOPERATING* on the basis of best available information	-	-	1)CARE B+; Stable; ISSUER NOT COOPERATING* (18-Mar-19) 2)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 B+; Stable; ISSUER NOT COOPERATING* on the basis of best available information	-	-	1)CARE B+; Stable; ISSUER NOT COOPERATING* (18-Mar-19) 2)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; ISSUER NOT COOPERATING* (18-Mar-19) 2)CARE A4 (04-Apr-18)	-

**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:**

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