

Shiv Flour Mill

June 07, 2017

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long-term Bank Facilities	8.30	CARE BB-; Stable (Double B Minus; Outlook: Stable)	Assigned
Total Facilities	8.30 (Rupees Eight crore Thirty lakh only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating assigned to the bank facilities of Shiv Flour Mill (SFM), is primarily constrained by 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 rating, however, derive strength from its experienced partners, satisfactory growth prospects of the industry and proximity to raw material sources.

Going forward, the ability of the firm to improve its scale of operations along with profitability margins and efficient management of working capital are the key rating sensitivities.

Detailed description of the key rating drivers

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Partnership nature of business: SFM, being a partnership firm, is exposed to inherent risk of partner's capital being withdrawn at time of personal contingency.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 remained high as reflected through average utilization of working capital limits which stood at around 90% in the last 12 months ending April 2017.

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.40.52 crore and Rs.0.97 crore respectively in FY17 (prov.). Furthermore, the total capital employed was also modest at Rs.12.69 crore as on March 31, 2017. The small scale restricts the financial flexibility of the firm in times of stress. This apart, though the PBILD margin is moderate at 7.37% during FY17 (prov.), the PAT margin is low at 2.38% during the same period.

The capital structure of the firm is moderately leveraged marked by above unity overall gearing ratio at 1.34x 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 2.92x during FY17 (prov.). However, current ratio remains below unity as on March 31, 2017 on account of high current portion of long-term debt.

Key Rating Strengths

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

Experienced partners: SFM is currently managed by Mr Niranjan 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

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

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

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

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

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.

During FY17 (provisional), the firm reported a total operating income of Rs.40.52 crore (FY16 audited: Rs.36.34 crore) and a PAT of Rs.0.97 crore (FY16 audited: Rs.0.62 crore).

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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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. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	March 2020	5.34	CARE BB-; Stable
Fund-based - LT-Cash Credit	-	-	-	2.96	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-Term Loan	LT	5.34	CARE BB-; Stable	-	-	-	-
2.	Fund-based - LT-Cash Credit	LT	2.96	CARE BB-; Stable	-	-	-	-

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