

## Shiv Health Foods LLP

February 20, 2020

### Ratings

Facilities	Amount (Rs. crore)	Ratings <sup>1</sup>	Rating Action
Long-term Bank Facilities	30.12	<b>CARE BBB; Stable (Triple B; Outlook: Stable)</b>	Reaffirmed
Long-term/Short-term Bank Facilities	20.00	<b>CARE BBB; Stable /CARE A3+ (Triple B; Outlook: Stable/A Three Plus)</b>	Reaffirmed
<b>Total</b>	<b>50.12 (Rupees Fifty crore and twelve lakh only)</b>		

*Details of instruments/facilities in Annexure-1*

### Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Shiv Health Foods LLP (SHF) continue to derive strength from the vast experience of its promoters and their resourcefulness along with established network of milk collection and chilling centers. The ratings also draw strength from its healthy profitability margins, moderate capital structure and debt coverage indicators and adequate liquidity. The ratings further derive strength from growth in its scale of operations in FY19 (FY refers to the period from April 01 to March 31) and successful completion of its capex for manufacturing of soya proteins and stabilization of operation of soya proteins division resulting in diversified revenue stream.

The ratings, however, continue to remain constrained on account of its constitution as a limited liability partnership concern, environment-related risk associated with milk collection, geographical concentration of operations, susceptibility of its profitability to volatility associated with agro-based raw material prices along with presence in a fragmented and an intensely competitive milk processing and soya business.

### Key Rating Sensitivities

#### Positive Factors

- Increase in its scale of operations with total operating income (TOI) around Rs.500 crore while earning PBILDT margin above 15% on a sustained basis.
- Improvement in overall gearing below 0.50 times along with improvement in debt coverage indicators.
- Conversion in constitution from LLP to company.

#### Negative Factors

- Deterioration in its overall gearing beyond 1.50 times on sustained basis mostly led by elongation in its working capital cycle being funded by external debt and concomitant impact on its debt coverage indicators
- Decline in its PBILDT margins below 8% on a sustained basis.

### Detailed description of the key rating drivers

#### Key Rating Strengths

**Experienced promoters with long track record of operations:** SHF is a limited liability partnership firm with a family centric management. The entity is part of Shiv Group, promoted by the Saboo family of Kota, which has long track record of operations. The promoters have vast experience in agro processing business through other group entities.

**Growth in total operating income with moderate profitability:** Total operating income of the firm increased by 77.78% from 134.06 crore in FY18 to Rs.238.33 crore in FY19 on the back of higher trading income of SMP and Ghee and income from soya proteins division which has commenced operations in May, 2018. Further, TOI stood at Rs.154.08 crore for H1FY20.

PBILDT margin of the firm improved by 207 bps to 15.55% in FY19 against 13.48% in FY18 on account of opportunity based trading of SMP and Ghee during FY19 and higher margins earned from soya proteins division. During FY18, margins were higher due to higher job work income of Rs.8.70 crore which firm had done for SARAS and SANCHI. However, PAT margin in FY19 stood negative on account of higher depreciation charged for FY19 as the firm has availed the additional tax benefit in terms of charging higher depreciation on starting of new unit (ISP; Isolated Soya Proteins). A firm can charge additional depreciation at the rate of 20% on very first year of commercial operations of project. Further, PBILDT margin stood at 11.38% and PAT margin at 3.34% during H1FY20.

**Established procurement and marketing arrangement:** SHF has nine milk collection and chilling centres in seven districts of Madhya Pradesh and Rajasthan having milk storage capacity of 4 Lakh liters per day (LLPD). Established milk

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

procurement centers ensure its steady availability for SHF. SHF sells packaged milk under the brand name 'Kota Fresh' in Rajasthan (majority) while to some extent in Madhya Pradesh and Gujarat. Further, SHF has started selling dairy products on railway stations. In addition, the firm sells other milk products like skimmed milk powder (SMP), butter, ghee, paneer, curd, etc. SHF has been successful in increasing its product penetration through a strong distribution network, selling its products to 35 distributors, institutions and bulk customers. Further for ISP unit, SHF sources raw material such as soya grit and soya flour from its group concern Shiv Vegpro Private Limited. During FY19, the revenue contribution from sale of pasteurized milk stood at 46% (PY: 93%), skimmed milk powder at 29% (0.19%), ghee at 11.53% (3.13%) of TOI and revenue from other products which consisted curd, butter milk and paneer stood at 2.40% (3.46%) of TOI.

**Stabilization of operations of its new plant for manufacturing of soya proteins:** During FY17, the firm undertook debt funded diversification project for setting up of plant for manufacturing of soya proteins with installed capacity of 10 MTPD. SHF incurred total cost of Rs.103.40 crore funded through partners' capital of Rs.18.95 crore, term loan of Rs.41.20 crore, unsecured loans of Rs.36.21 crore, creditors of Rs.2.28 crore and remaining through internal accruals. The project achieved commercial operations in May 2018 and achieved total sales of around Rs.25 crore in FY19 from ISP Soya proteins Division. As per management, plant has operated at 70% capacity utilization during 9MFY20.

**Moderate capital structure and debt coverage indicators:** Capital structure of the firm stood moderate with overall gearing of 1.17 times as on March 31, 2019; though deteriorated from 0.90 times as on March 31, 2018 mainly on account of deterioration in net-worth due to loss posted in FY19 and decrease in quasi capital from Rs.31.65 crore as on March 31, 2018 to 16.83 crore as on March 31, 2019 post repayment of unsecured loans of the partner due to healthy cash accruals during FY19. Further, overall gearing stood at 0.96 times as on September 30, 2019. Debt coverage indicators of the firm also stood at a moderate level marked by PBILDT interest coverage of 4.25 times in FY19 though deteriorated from 18.64 times in FY18 due to increase in interest cost post capitalization of the project. Further, total debt to GCA has improved to 2.39 times as on March 31, 2019 as compared to 5.15 times as on March 31, 2018 mainly due to increase in gross cash accruals in FY19 in line with improvement in operating margins.

**Liquidity - Adequate:** Liquidity of the firm remained moderate as reflected by working capital cycle of 23 days in FY19 and average 34% utilization of its fund-based working capital limit for the trailing 12 months ended January, 2020. SHF had unencumbered cash and cash equivalent of Rs.4.45 crore as on March 31, 2019 and envisaged cash accruals of Rs.23.32 crore in FY20 as against repayment of Rs.7.20 crore during FY20.

#### Key Rating Weaknesses

**Constitution as a limited liability partnership concern:** SHF's constitution as a limited liability partnership firm with low capital base restricts its overall financial flexibility in terms of limited access to external funding for any future expansion plans. There is also the inherent risk of withdrawal of capital and dissolution of the firm in case of death/ insolvency of the partners. Any significant withdrawals from the capital account will affect its capital structure. However, during FY18, partners had infused capital of Rs.8.05 crore while there was withdrawal of Rs.0.41 crore in FY19. Further, partners and relatives have infused unsecured loans of Rs.24.29 crore for funding the project in FY17 & FY18 while it withdrew unsecured loans of Rs.11.11 crore during FY19 due to healthy cash accruals in FY19. Further, SHF has fixed capital of Rs.35.50 crore received from the partners.

**Exposed to environment-related risks associated with milk collection:** SHF collects its entire milk from its milk procurement centers spread across 7 districts of Rajasthan and Madhya Pradesh. SHF's milk procurement channel has grown over past few years, nevertheless, geographical concentration in milk procurement exposes it to environmental risks such as epidemic which could adversely affect its milk supply. Geographical diversification in milk procurement network shall be crucial from credit perspective.

**Susceptibility of its profitability to volatility associated with agro-based raw material prices along with presence in a fragmented and an intensely competitive milk processing and soya business:** SHF faces competition in the dairy segment from other established brands in the organized market. The competition gets fiercer with presence of unorganized players leading to pricing pressures SHF's profitability is susceptible to the movement in the prices of soya bean. The prices of soya-based products are governed by the demand-supply dynamics prevalent in major soya-growing nations, weather conditions and prices of substitute edible oils. A domestic production of soya seed, in turn, is dependent on area under cultivation, adequacy of monsoon, prices of other competing crops, Minimum Support Price (MSP) and other incentives offered by the Government of India. Currently, in India, the prices of soya bean has witnessed an increasing trend owing to high demand and heavy rain at the time of sowing. Further, SHF faces stiff competition from imports majorly from China.

**Geographical concentration of operations:** The firm is based in the state of Rajasthan and is hence susceptible to the geographic concentration arising out of sales. SHF sells majority of its product in nearby vicinity of Kota (Rajasthan).

Further, the current sales of the firm is balanced in terms of exposure to B2B sales and B2C sales. However, with more focus on B2C sales and envisaged increase in product profile (Milk Powder, instant dairy creamer, yogurt, cheese etc.), the B2B sales is expected to reduce, going ahead.

**Industry Outlook:** India is the largest milk producing nation in the world with 9.5% of total milk production of the world in 2018. The domestic demand for milk is rising on the back of increasing population, rising disposable incomes, better milk availability and growing health awareness. With growing population and increasing purchasing power of the average consumer, demand for milk and milk products is expected to fuel the growth for dairy industry going forward.

India is one of the major soya bean producing countries with fair share in exports of soya products (majorly soya DOC) which generally fetches lower margin as compared to value added products). However, since last 2-3 years, the industry is facing problem due to disparity of prices of domestic soya seed and international soya products. Further, due to higher demand and increase in MSP of soya seeds by government, prices are expected of increase this crop season.

**Analytical approach:** Standalone

#### Applicable Criteria

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

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

[Criteria for Short Term Instruments](#)

[Rating Methodology-Manufacturing Companies](#)

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

#### About the Firm

Kota based (Rajasthan); Shiv Health Foods LLP (SHF) is a limited liability partnership (LLP) established in 2010 by five partners comprising members from Saboo family (i.e. promoter's family) and a corporate entity Shiv Agrevo Limited, (having 35% holding in SHF). SHF, an ISO 22000:2005 compliant and a Food Safety Management Systems (FSMS) certified entity, is engaged in the business of processing milk and producing milk products from its manufacturing facility located in Kota, Rajasthan. Further, SHF had started plant for manufacturing of soya proteins with installed capacity of 10 MTPD and sell under its own brand name 'Prowise'

Brief Financials (Rs. crore)	FY18(A)	FY19 (A)
Total operating income	134.06	238.33
PBILDT	18.07	37.06
PAT	9.27	-6.23
Overall gearing (times)*	0.90	1.17
Interest coverage (times)	18.64	4.25

A: Audited \*including unsecured loans of Rs.31.65 crore for FY18 and Rs.16.83 crore for FY19 have been considered as quasi-equity as per the sanctioned condition of the bank.

SHF has earned PBT of Rs.6.64 crore on a TOI of Rs.154.08 crore during H1FY20.

**Status of non-cooperation with previous CRA:** None

**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, 2026	30.12	CARE BBB; Stable
Fund-based - LT/ ST-Cash Credit	-	-	-	20.00	CARE BBB; Stable / CARE A3+

## 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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - LT-Term Loan	LT	-	-	-	-	-	1)Withdrawn (09-Jan-17)
2.	Fund-based - LT-Cash Credit	LT	-	-	-	-	-	1)Withdrawn (09-Jan-17)
3.	Fund-based - LT-Term Loan	LT	30.12	CARE BBB; Stable	-	1)CARE BBB; Stable (03-Jan-19)	1)CARE BBB; Stable (26-Oct-17)	-
4.	Fund-based - LT/ ST-Cash Credit	LT/ST	20.00	CARE BBB; Stable / CARE A3+	-	1)CARE BBB; Stable / CARE A3+ (03-Jan-19)	1)CARE BBB; Stable / CARE A3+ (26-Oct-17)	-

**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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