

## UFM Industries Limited

### September 26, 2019

#### Ratings

| Facilities                | Amount<br>(Rs. crore)                    | Rating <sup>1</sup>                                    | Rating Action     |
|---------------------------|--|--|-------------------|
| Long-term Bank Facilities | 7.00                                     | <b>CARE BB; Stable</b><br>(Double B ; Outlook: Stable) | <b>Reaffirmed</b> |
| <b>Total</b>              | <b>7.00</b><br>(Rupees Seven Crore only) |  |                   |

*\*Details of facilities in Annexure-1*

#### Detailed Rationale & Key Rating Drivers

The rating assigned to the bank facilities of UFM Industries Limited is continues to be constrained by its moderate scale of operations along with low profit margins, volatile agro-commodity (flour) prices with linkages to vagaries of the monsoon and regulated nature of industry and intensely competitive nature of the industry with presence of many unorganised players. However, the aforesaid constraints are partially offset by its experienced promoter and long track record of operations, satisfactory demand outlook of the products and proximity to raw material sources and comfortable leverage ratios with moderate debt coverage indicators. The ability of the company to grow its scale of operations and improve its profit margins and ability to manage working capital effectively would be the key rating sensitivities.

#### Detailed description of the key rating drivers

##### Key Rating Weaknesses

**Moderate scale of operation with low profitability margin:** UFM is a medium player vis-à-vis other players in food processing industry marked by its total operating income of Rs.83.58 crore (Rs.68.50 crore in FY18) with a PAT of Rs.1.06 crore (Rs.0.71 crore in FY18) in FY19. Furthermore, the total operating income of the company witnessed continuous growth during last three years with a CAGR of 10.37 and a y-on-y growth of 20.55% due to higher demand of its products in the market coupled with better average price realization and higher capacities utilized. The total net worth was moderate at Rs.16.69 crore as on March 31, 2019. Moreover, the company has achieved total operating income of Rs.17.46 crore in Q1FY20. The moderate size restricts the financial flexibility of the company in times of stress. The profitability margins of the company remained low marked by PBILDT margin of 2.94% (2.40% in FY18) and PAT margin of 1.29% (1.04% in FY18) in FY19. However, the PBILDT margin improved during FY19 due to better management of cost of operations. Furthermore, the PAT margin improved in FY19 on account of higher increase in PAT levels vis-à-vis increase in interest charges during the said period.

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

UFM Industries Limited 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 2018-19 is Rs.1840/quintal increased from Rs.1735/quintal in 2017-18. Further 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 unorganized 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. Assam 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.

#### Key Rating Strengths

##### **Experienced Promoters and long track record of operations**

Mr. Mahabir Prasad Jain (aged 66 years) having around three decades of experience in the flour mill business. He looks after the overall management of the company, with adequate support of other directors and a team of experienced personnel. More than two decades of presence of the company, reflecting long track record in the business of processing of wheat products under its roller mills.

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

**Satisfactory demand outlook of the products and proximity to raw material sources**

Wheat based products, viz. Maida, Sooji, Bran and Atta have large consumption across the country in the form of bakery products, cakes, biscuits and different types of food dishes in homes 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.

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

**Comfortable capital structure with satisfactory debt coverage indicators:** The capital structure of the company remained comfortable marked by overall gearing ratios at 0.34x, respectively, as on March 31, 2019. The debt coverage indicators also remained satisfactory during last three years (FY17-FY19). Furthermore, the interest coverage ratio have improved in FY19 vis-s-vis FY18 on account of higher increase in PBILDT levels and the same remained comfortable during last three years and stood at 3.60x in FY19. The total debt to GCA improved marginally as on March 31, 2019 due to higher increase in cash profit levels and the same remained comfortable at 3.67x as on March 31, 2019.

**Moderate liquidity position:** The liquidity ratios remained adequate marked by current ratio of 1.97x and quick ratio of 1.17x as on March 31, 2019. The utilisation of cash credit limit was moderately high at around 80% during last 12 months ended on August 31, 2019. The liquidity is supported by its cash and bank balance amounting to Rs.0.52 crore as on March 31, 2019. The Gross cash accruals also remained moderate at Rs.1.53 during FY19 (Provisionals). Furthermore, the operating cycle of the company remained comfortable in the range of 33 days to 37 days during the period FY17 to FY19.

**Analytical approach:** Standalone

**Applicable Criteria**

[Criteria on assigning 'outlook' and 'credit watch'](#)

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

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

[Rating Methodology-Manufacturing Companies](#)

**About the Company**

Incorporated in 1995, UFM Industries Limited is engaged in flour milling activities with its two manufacturing facilities located at Meherpur, Silchar, Cachar – 788015 and other at Dhubri, Assam. The company manufactures atta, maida, sooji and bran and sells through wholesalers and dealers with combined installed capacity of 1,14,000 Metric ton per Annum (MTPA).

Mr. Mahabir Prasad Jain (aged 66 years), having around three decades of experience in the same line of industry, looks after the overall management of the company with adequate support from other directors and a team of experienced personnel.

| Brief Financials (Rs. crore) | FY18 (A) | FY19 (A) | Q1FY20 |
|------------------------------|----------|----------|--------|
| Total operating income       | 68.50    | 82.58    | 17.46  |
| PBILDT                       | 1.64     | 2.43     | 1.13   |
| PAT                          | 0.71     | 1.06     | 0.70   |
| Overall gearing (times)      | 0.35     | 0.34     | -      |
| Interest coverage (times)    | 2.88     | 3.60     | 8.69   |

A: Audited

**Status of non-cooperation with previous CRA:** Not Applicable.

**Any other information:** Not Applicable.

**Rating History (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-Cash Credit | -                | -           | -             | 7.00                          | 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 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-Cash Credit            | LT              | 7.00                           | CARE BB; Stable | -   | 1)CARE BB; Stable (29-Oct-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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