

UFM Industries Limited
December 14, 2020

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long Term Bank Facilities	7.00	CARE BB; Stable (Double B; Outlook: Stable)	Reaffirmed
Total Facilities	7.00 (Rs. Seven Crore Only)		

Details of instruments/facilities in Annexure-I

Detailed Rationale & Key Rating Drivers

The rating assigned to the bank facilities of **UFM Industries Limited (UFM)** continues to remain 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 unorganized 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 capital structure with moderate debt coverage indicators.

Rating Sensitivities**Positive factors**

- Sizeable increase in scale of operations (turnover beyond Rs.100 crore with improvement in operating margin beyond 5.0%) while maintaining its below unity overall gearing ratio on a sustained basis.

Negative factors

- Any sizeable de-growth in scale of operation (turnover below Rs.50.00 crore) with any further deterioration in operating margin on a sustained basis.
- Significant deterioration in capital structure (overall gearing beyond 1.50x) and its increased reliance on external borrowings to fund these requirements on a sustained basis.

Detailed description of the key rating drivers**Key Rating Weaknesses**

Moderate scale of operation with low profitability margin: UFM is a moderately small player vis-à-vis other players in food processing industry marked by its total operating income of Rs.78.64 crore (Rs.82.58 crore in FY19) with a PAT of Rs.0.58 crore (Rs.1.06 crore in FY19) in FY20. Furthermore, the total operating income of the company witnessed deterioration in FY20 by 4.77% y-o-y basis due to lower demand of its products in the market coupled with lower capacities utilized around 29% in FY20. Besides, the sales have been impacted due to COVID 19 in Q4FY20 for sudden countrywide lockdown. The total net worth was moderate at Rs.17.27 crore as on March 31, 2020. 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 2.54% (2.94% in FY19) and PAT margin of 0.74% (1.29% in FY19) in FY20. However, the PBILDT margin deteriorated during FY20 due to decrease in demand resulting to decline in sales and the PAT margin also deteriorated in FY20 in line with the PBILDT margin.

The operation of UFM has been impacted moderately by sudden outbreak of novel COVID-19 due to countrywide lockdown from last week of March, 2020 as the company was not able to operate properly at that time due to transportation issue. Besides, the demand of the products was low during Q4FY20 resulting in decline in turnover in FY20. However, the demand of essential products increased from April, 2020 and the company was able to generate a turnover of Rs.21.57 crore in Q1FY21. In 8MFY21 company has generated turnover of Rs.59.00 crore.

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 Government hiked the minimum price for buying six rabi crops, including wheat, up to six percent and the MSP of wheat for 2020-21 becomes Rs.1975/quintal increased from Rs.1925/quintal in 2019-20. 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.

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

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 has around three decades of experience in the flour mill business, and 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.

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 improved on account of lower utilization of bank limits as on account closing date and accumulation of profit into reserves and the same remained comfortable marked by overall gearing ratios at 0.23x as on March 31, 2020 as compared to 0.34x, as on March 31, 2019. The debt coverage indicators also remained moderate during last three years (FY18-FY20) marked by total debt/GCA of 4.80x as on March 31, 2020 as against 3.67x as on March 31, 2019. Deterioration in TD/GCA was due to lower generation of cash accruals in FY20. Furthermore, the interest coverage ratio though deteriorated marginally due to decline in PBILDT level but the same remained satisfactory at 3.22x in FY20 vis-à-vis 3.60x FY19.

Liquidity-Adequate:

The liquidity of the company remained adequate as marked by sufficient cushion in accruals vis-à-vis repayment obligations, modest bank limit utilisation and moderate cash balance. The company has generated gross accruals of Rs.0.82 crore as against debt repayment of Rs.0.12 crore and has cash balance of Rs.0.58 crore as on March 31, 2020. The average utilization of working capital is around 69% during last 12 month ended October, 2020. The current ratio of the company stood above unity at 2.23x as on March 31, 2020. The operating cycle though increases but remained moderate. The company has availed moratorium for interest on working capital for 6 months (March, 2020-August, 2020).

Analytical approach: Standalone

Applicable criteria

[Criteria on assigning outlook and credit watch to Credit Ratings](#)

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

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

[Liquidity Analysis of Non-financial sector entities](#)

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

About the Company

UFM Industries Limited (UFM) was incorporated in 1986 by conversion of the then partnership firm 'M/s Union Flour Mills'. The company is listed at the Bombay Stock Exchange (BSE) and the Calcutta Stock Exchange Association Limited. Since its inception, the company has been engaged in flour milling business in the state of Assam and presently it is operating in the district of Silchar and Dhubri with an aggregate milling capacity of 1, 14,000 metric tons per annum. The company mainly manufactures atta, maida, sooji and bran which are sold through wholesalers and dealers.

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	82.58	78.64
PBILDT	2.43	2.00
PAT	1.06	0.58
Overall gearing (times)	0.34	0.23
Interest coverage (times)	3.60	3.22

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

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

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 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-Cash Credit	LT	7.00	CARE BB; Stable	-	1)CARE BB; Stable (26-Sep-19)	1)CARE BB; Stable (29-Oct-18)	-

Annexure 3: Covenants of rated instrument / facility: Not Applicable

Annexure 4: Complexity level of various instruments rated for this Company

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Cash Credit	Simple

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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