

January 30, 2024

## Shri Bhagwati Flour Mills Private Limited: Ratings reaffirmed; rated amount enhanced

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund based – Cash Credit	97.00	125.00	[ICRA]BBB (Stable); reaffirmed and assigned for enhanced amount
Short-term – Interchangeable – Others^	(44.00)	(44.00)	[ICRA]A3+; reaffirmed
<b>Total</b>	<b>97.00</b>	<b>125.00</b>	

\*Instrument details are provided in Annexure-I; ^Sub-limit of Rs. 125.0 crore cash credit limit

### Rationale

The ratings continue to take into consideration the extensive experience of Shri Bhagwati Flour Mills Private Limited's (SBFM) promoters and the company's established presence in besan, atta, maida and sooji flour processing industry. The ratings derive strong support from the healthy scale of the company's operations and comfortable debt protection metrics, which are likely to sustain in the future. The company's debt coverage metrics, as reflected by interest coverage and DSCR, improved significantly in FY2023 on account of low utilisation of working capital limits and maturity of all its term loans. Additionally, the company's scale rose by 13.4% in FY2023, driven by an increased sales volume of besan, maida, sooji and wheat flour, which would continue to support a steady growth in the future. The ratings also reflect SBFM's well-entrenched distribution network and the strong brand presence of Gaay Chhap and Uttam in Gujarat. As per ICRA's estimates, the company's scale would continue to expand steadily, going forward, with a marginal moderation in its profitability. Moreover, with no repayment obligation and low utilisation of its limits, the company would maintain comfortable debt coverage metrics.

The ratings, however, continue to be constrained by the company's low profit margins due to limited value addition in the business, which has resulted in a range-bound operating profit margin (2-3%). Further, the company has high geographical concentration (~75% of sales in FY2023 came from Gujarat), which exposes it to the associated risks. The ratings are further impacted by the intensely competitive industry structure, which restricts the pricing and exerts pressure on the margins. Moreover, the company's operations and margins are susceptible to the prevailing agro-climatic conditions and changes in Government policies. Also, quality and reputation risks remain high as the company belongs to the food industry.

The Stable outlook on the [ICRA]BBB rating reflects ICRA's opinion that SBFM will continue to register a steady revenue growth along with steady profitability, supported by its long track record and strong position in the flour processing business.

### Key rating drivers and their description

#### Credit strengths

**Extensive experience of promoters in flour mills business** – SBFM and its promoters have been manufacturing besan, atta, maida and sooji for over four decades. Further, the promoters are associated with a sister concern, Shree Bhagwati Flour & Foods Private Limited, which manufactures various types of flours, spices, groceries and instant mixes.

**Well-entrenched distribution network with strong brand presence in Gujarat** – The company is an established player in the B2B segment in Gujarat and sells its products under the brand names, Gaay Chhap and Uttam. The presence of the company's sister concern, Shree Bhagwati Flour & Foods Private Limited, in the retail segment helps it to reinforce its brand name.

Moreover, the company benefits from an established network of more than 100 own dealers and the wide distribution reach of its sister concern in retail and modern trade channels.

**Healthy scale of operations and comfortable debt coverage metrics** – SBFM reported an operating income (OI) of Rs. 868.4 crore in FY2023 against Rs. 765.9 crore in FY2022. The company also generated total revenue of Rs. 757.5 crore as on 9M FY2024. The significant rise in revenue can be attributed to an increase in the sales volume of besan, maida, sooji and wheat flour. The company's debt protection metrics improved further on the back of maturity of its term loans and low utilisation of its working capital limits, as reflected by an interest coverage and DSCR of 9.3 and 7.4 times, respectively in FY2023 (3.6 and 2.0 times, respectively in FY2022).

### Credit challenges

**Low profit margins inherent in industry** – SBFM operates in a commoditised market. Its operating margin remained range-bound (2.0-3.0%) in the last few years because of its low value-added nature of business along with the fragmented and large unorganised market. Consequently, the net margin also remained low at around 0.90%.

**Intense competition and geographical concentration risks** – Gujarat continues to be the company's key market and contributed ~75% to its total sales in FY2023, which is expected to continue in the future, exposing it to the risks associated with the region. Further, the company faces intense competition from other established and unorganised players in the agro-processing industry, which restricts pricing flexibility, thereby exerting pressure on its margins.

**Exposure to agro-climatic risks and changes in regulations** – As SBFM operates in an agro-based industry, it remains exposed to agro-climatic risks such as quality of raw material availability and pricing. Moreover, any change in Government regulations like minimum support price (MSP), adverse development on import policies and export ban from overseas markets can also have a bearing on the performance of all industry players, including SBFM.

**Exposure to quality-related risks** – As the company is present in the food industry, its quality and reputation related risks are high, which could impact the company's pricing strength.

### Liquidity position: Adequate

The liquidity position of the company is expected to remain adequate, backed by stable cash accruals and positive cash flows from operations of more than Rs. 10.0 crore, sufficient to cover the debt service obligations (only interest). In the absence of any term loan, the company does not have any repayment obligation in the near term. Further, the unencumbered cash balance (Rs. 15.7 crore as on March 31, 2023) and reasonable cushion (more than 20%) in the working capital limits are likely to support its liquidity. The company uses its surplus to fund the working capital requirements, which helps it in reducing the utilisation of bank limits, thereby limiting the interest cost. Additionally, need-based support from the promoters in the form of unsecured loans with flexible repayment terms would remain critical for the company.

### Rating sensitivities

**Positive factors** – The ratings are likely to be upgraded if there is a significant increase in its scale and profitability, leading to an improvement in its liquidity and debt coverage metrics on a sustained basis.

**Negative factors** – Pressure on the ratings could arise following a sharp decline in the company's revenue and profitability on a sustained basis. Further, any major debt-funded capital expenditure (capex) or a stretch in the working capital cycle, leading to a deterioration in the capital structure and liquidity, may lead to ratings downgrade. Specific credit metrics, which could lead to ratings downgrade, include an interest cover of less than 3.0 times on a sustained basis.

## Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	<a href="#">Corporate Credit Rating Methodology</a>
Parent/Group support	Not applicable
Consolidation/Standalone	Standalone

## About the company

Shree Bhagwati Flour Mills Private Limited (SBFM) and its promoters have been manufacturing besan, atta, maida and sooji over the last four decades. The company's manufacturing plant is in Ahmedabad with an installed capacity of 2,18,400 MTPA. The company caters to the B2B segment in Gujarat, Rajasthan, and a few parts of Maharashtra. The promoters' association with another entity, Shree Bhagwati Flour & Foods Private Limited, helps in forward integration for SBFM. The Group markets besan under the brand, Gaay Chhap, while maida, atta, and sooji are marketed under the brand, Uttam, both of which have an established presence in Gujarat.

### Key financial indicators (audited)

Shri Bhagwati Flour Mills Private Limited	FY2022	FY2023
Operating income	765.9	868.4
PAT	7.0	15.8
OPBDIT/OI	2.4%	3.3%
PAT/OI	0.9%	1.8%
Total outside liabilities/Tangible net worth (times)	0.7	1.3
Total debt/OPBDIT (times)	1.9	3.6
Interest coverage (times)	3.6	9.3

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. Crore; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

### Status of non-cooperation with previous CRA: Not applicable

### Any other information: None

## Rating history for past three years

Instrument		Current rating (FY2024)				Chronology of rating history for the past 3 years			
		Type	Amount rated (Rs. crore)	Amount outstanding as of Dec 31, 2023 (Rs. crore)	Date & rating in FY2024		Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					Jan 30, 2024	Jul 24, 2023			
1	Cash credit	Long term	125.0	--	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)
2	Interchangeable – Others^	Short term	(44.0)	--	[ICRA]A3+	[ICRA]A3+	-	-	-
3	Non-fund-based Letter of credit	short term	-	--	-	-	[ICRA]A3	[ICRA]A3	[ICRA]A3
4	Non-fund-based Bank Guarantee^	short term	-	--	-	-	[ICRA]A3	[ICRA]A3	[ICRA]A3
5	Non-fund-based LOU for buyers' credit^	short term	-	--	-	-	-	[ICRA]A3	[ICRA]A3
6	Non-fund-based LER^	short term	-	--	-	-	-	[ICRA]A3	[ICRA]A3

<sup>^</sup>Sub-limit of Rs. 125.0 crore cash credit limit

## Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term – Fund based – Cash credit	Simple
Short-term – Interchangeable – Others <sup>^</sup>	Very simple

<sup>^</sup>Sub-limit of Rs. 125.0 crore cash credit limit

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: [Click Here](#)

#### Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash credit	-	8.25%	-	125.00	[ICRA]BBB (Stable)
NA	Interchangeable - Others^	-	9.25%	-	(44.00)	[ICRA]A3+

Source: Company; ^Sub-limit of Rs. 125.0 crore cash credit limit

[Please click here to view details of lender-wise facilities rated by ICRA](#)

#### Annexure II: List of entities considered for consolidated analysis – Not applicable

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