August 29, 2019

Mishtann Foods Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based Cash Credit	25.00	37.95	[ICRA]BBB(Stable); Reaffirmed
Fund-based Term Loan	4.00	2.59	[ICRA]BBB(Stable); Reaffirmed
Unallocated Limits	13.00	1.46	[ICRA]BBB(Stable); Reaffirmed
Total	**42.00**	**42.00**	

**Instrument details are provided in Annexure-1*

Rationale

The rating reaffirmation continues to take into account the extensive experience of the promoters in the agro-milling business and the gradual improvement in the financial risk profile, characterised by improvement in the scale of operations, capital structure and debt coverage indicators.

The ratings, however, remain constrained by the limited track record of the company's operations and the limited brand visibility. The ratings also factor in the low value-addition and the high competition in the rice milling industry, which lead to low profitability. The cashflow from operations was negative because of the high working capital requirements. The ratings further remain constrained MFL's geographical and product concentration risk and the vulnerability of operations to monsoon and other agro-climatic risks, which impact the availability and quality of paddy.

Outlook: Stable

ICRA believes MFL will continue to benefit from the extensive experience of its promoters in the agro-commodity business. The outlook may be revised to Positive if timely completion of the proposed capex, and the stabilisation and scale up of operations lead to substantial growth in scale and profitability, which along with better working capital management improves the overall liquidity and financial profile. The outlook may be revised to Negative in case of any deterioration in revenues or profitability, or there is higher-than-expected debt-funded capital expenditure, or an elongation in the working capital cycle leads to a stretch in liquidity and deterioration in the overall credit profile.

Key rating drivers

Credit strengths

Extensive track record of promoters in agro-commodity business- The promoters have more than a decade long experience in the agro-commodity industry through their association with erstwhile Group concern, Ravi Trading Co., before it ventured into Mishtann Foods Limited (MFL). Accordingly, MFL benefits from the established relationship with its suppliers and customers.

Healthy scale-up of operations along with improvement in capital structure and coverage indicators - The company's operating income grew at a CAGR of 61% to Rs. 481.72 crore in FY2019 from Rs. 115.67 crore in FY2016, supported by expansion of sales geographies, increase in sales realisation and higher proportion of revenues from rice milling. The company's net worth increased substantially to Rs. 69.18 crore as on March 31, 2019, from Rs. 11.79 crore as on March 31, 2017, mainly supported by equity capital infusion to the tune of Rs. 21.00 crore in FY2018 and Rs. 18.98 crore in FY2019 on a preferential basis, and the accretions to reserves. Better net worth resulted in gradual improvement in capital structure, with gearing improving to 0.57 times as on March 31, 2019 from 3.07 times as on March 31, 2017. The company's coverage indicators stood healthy as evidenced from TD/OPBDITA at 1.64 times, TOL/TNW of 0.66 times and NCA/TD at 34% for FY2019.

Credit challenges

Low value-added operations along with high working capital intensity - MFL's operations, unlike other established players, remains non-integrated because of low stocking of paddy during the harvest season, given the availability constraints on working capital. The profitability is further restricted as the company procures semi-processed rice, which leads to high raw material cost (~93% to 96% of OI in last couple of years). Further, the company also offers cash discount to customers to receive payments faster, which further limits profitability. The company's operating profitability, through improved to 3.46% in FY2018 and 5.01% in FY2019 from 2.91% in FY2017, continues to remain moderate. Consequently, the net profit margin also remained at 1.48% in FY2018 and 2.48% in FY2019. Going forward, the company plans to reduce the cash discount it offers and instead extend the credit period after availing additional working capital limits from bank, which on an overall basis is expected to support profitability. Further, the scale up of operations in the recent years, as reflected by increase in NWC/OI to 21% FY2019 from 15% in FY2018, has further stressed the cashflows.

Limited track record of operations; exposure to stiff competition- The company has a limited track record in processing basmati rice as operations commenced from January 2015. Further, as the brand 'Mishtann' is relatively new in the rice milling industry its brand visibility is limited, which is further aggravated by the intense competition. Though in the current fiscal, the company has carried out extensive marketing campaign in outdoor media majorly in Gujarat, the brand recognition is yet to be established in the operational geographies in India, which constrains MFL in terms of pricing/bargaining power vis-à-vis other established branded basmati rice players.

High geographical and product concentration risk – The company faces geographical concentration risk (~73% of the total revenue in FY2018 and FY2019 was derived from the South Indian market), making it susceptible to slowdown in a particular geography/market. Furthermore, MFL faces product concentration risk as the contribution of basmati rice, the major revenue contributor, increased year-on-year to reach 95% in FY2019 from 86% in FY2018. To offset this risk, the company plans to foray into cereal and pulse milling. The total capital outlay for this plan is Rs. 10.90 crore, which would be funded through a mix of debt and internal accruals. While, this capex will diversify the product portfolio, it will also expose the company to project implementation risks.

Vulnerability to vagaries of monsoon and other agricultural risks - Rice, being an agricultural commodity, is exposed to the vagaries of monsoon and other agricultural risks such as outbreak of diseases, lower/higher-than-projected production levels (that impact the supply and hence the price), poor storage capacities and inconsistencies in quality. Thus, MFL's ability to procure raw material of consistent quality at prudent price remains the key to success in the rice industry.

Liquidity position

The liquidity position remains adequate; with cash accruals supported by limited repayment obligation. However, the average utilisation of cash credit facility was high, at 80%, over the past 15 months from May 2018 to July 2019 because of working capital-intensive operations. Going forward, the working capital intensity is expected to increase as the company plans to extend the credit period offered to its customers as an alternative to giving trade/cash discounts. To do so, the company has sought incremental working capital of Rs. 50 crore from a bank. The company also plans to undertake a capex of Rs. 10.90 crore for constructing a pulse and cereal processing unit. The timely completion of the capex along with stabilisation of the operations of the new units and adequate cash generation will remain crucial for the company.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Issuers in Indian Rice Industry
Parent/Group Support	Not applicable
Consolidation/Standalone	The ratings are based on the standalone financial statement of the issuer.

About the company

Originally incorporated in February 1981 as HICS Cements Private Limited (HCPL), the company initially was a manufacturer of cement. It was managed by Mr. Duleray Vyas, Mr. Vinodbhai Buch, Mr. Shashin Buch and Mr. Chandubhai Patel. In October 1994, HCPL was converted to a listed public limited company and became HICS Cements Limited (HCL). In January 2015, the existing promoters, namely Mr. Navinchandra Patel, Mr. Hitesh Patel and Mr. Ravi Patel, took over the management of HCL from the erstwhile directors. Subsequently, the name was changed to Mishtann Foods Limited (MFL) and the company started processing, cleaning and grading grains and pulses. The company is listed on the Bombay Stock exchange and at present is involved in milling of rice, processing of wheat and pulses at its plant situated at Himantnagar, Gujarat with a capacity of 1,00,000 metric tonne per annum.

The company plans to foray into cereals and pulse milling in FY2021 at a capex of Rs. 10.90 crore, to be funded through term loan of Rs. 7.35 crore and internal accruals.

In FY2019, the company reported a net profit of Rs. 11.92 crore on an operating income (OI) of Rs.481.72 crore, compared to a net profit of Rs. 5.73 crore on an OI of Rs. 387.53 crore in FY2018. It reported a net profit of Rs. 3.14 crore on an OI of Rs. 125.91 crore in Q1FY2020 (provisional financials).

Key financial indicators (audited)

	FY2018	FY2019
Operating Income (Rs. crore)	387.53	481.72
PAT (Rs. crore)	5.73	11.92
OPBDIT/OI (%)	3.46%	5.01%
RoCE (%)	20.31%	25.08%
Total Debt/TNW (times)	0.82	0.57
Total Debt/OPBDIT (times)	2.35	1.64
Interest Coverage (times)	4.18	6.02

*(P)-Provisional financials, *profit before depreciation and tax*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

	Instrument	Current Rating (FY2020)							Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2020	Date & Rating in FY2019			Date & Rating in FY2018		Date & Rating in FY2017
					August 2019	June 2018	May 2018	April 2018	August 2017		-
1	Cash Credit	Long Term	37.95	NA	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA] B (Stable) ISSUER NOT COOPERATING withdrawn	[ICRA]B (Stable) ISSUER NOT COOPERATING		-
2	Term Loan	Long Term	2.59	3.11*	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]B (Stable) ISSUER NOT COOPERATING withdrawn	[ICRA]B (Stable) ISSUER NOT COOPERATING		-
3	Unallocated	Long Term	1.46	NA	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	-			-

**Issuer not co-operating*

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit	NA	NA	NA	37.95	[ICRA]BBB(Stable)
NA	Term Loan	FY2016	NA	FY2022	2.59	[ICRA]BBB(Stable)
NA	Unallocated	NA	NA	NA	1.46	[ICRA]BBB(Stable)

Source: MFL

Annexure-2: List of entities considered for consolidated analysis: Not applicable

ANALYST CONTACTS

K. Ravichandran
+91 44 4596 4301
ravichandran@icraindia.com

Suprio Banerjee
+91 22 6114 3443
supriob@icraindia.com

Mayank Agrawal
+91 79 4027 1514
mayank.agrawal@icraindia.com

Preet Ludhwani
+91 79 4027 1542
preet.ludhwani@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee
+91 80 4332 6401
jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries:

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

ICRA Limited

Corporate Office
Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002
Tel: +91 124 4545300
Email: info@icraindia.com
Website: www.icra.in

Registered Office
1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001
Tel: +91 11 23357940-50

Branches

Mumbai	+ (91 22) 24331046/53/62/74/86/87
Chennai	+ (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,
Kolkata	+ (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,
Bangalore	+ (91 80) 2559 7401/4049
Ahmedabad	+ (91 79) 2658 4924/5049/2008
Hyderabad	+ (91 40) 2373 5061/7251
Pune	+ (91 20) 2556 0194/ 6606 9999