February 26, 2020

Mishtann Foods Limited: Rating downgraded to [ICRA]BB+(Stable) and withdrawn

Summary of Rated Instrument:

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount(Rs. crore)	Rating Action
Fund-based Cash Credit	37.95	37.95	[ICRA]BB+ (Stable); downgraded from [ICRA]BBB(Stable) and withdrawn
Fund-based Term Loan	2.59	2.59	[ICRA]BB+ (Stable); downgraded from [ICRA]BBB(Stable) and withdrawn
Unallocated Limits	1.46	1.46	[ICRA]BB+ (Stable); downgraded from [ICRA]BBB(Stable) and withdrawn
Total	**42.00**	**42.00**	

Material Event

Mishtann Foods Limited's (MFL or the company) shares have exhibited significant decline since the last rating exercise. Also, there has been recent news article alleging against the company's directors and key management personnel for mismanagement/misappropriation of funds and forgery of cheques/digital signatures leading to police compliant.

Impact of the Material Event

ICRA has downgraded the long-term rating to [ICRA]BB+ (pronounced ICRA double B plus) from [ICRA]BBB (pronounced as ICRA triple B) for the Rs. 42.00-crore bank facilities of MFL. The outlook on the long-term rating remains Stable.

Rationale

The ratings downgrade takes into account significant decline in the company's share prices since last rating exercise wherein the share price has declined over 82% resulting in sharp reduction in financial flexibility coupled with reducing comfort on the company's governance structure due to recent news article alleging against the company's directors and key management personnel for mismanagement/misappropriation of funds and forgery of cheques/digital signatures leading to police compliant. The ratings, further, remains constrained by the limited track record of the company's operations and the limited brand visibility; low value-added nature of operation in highly competitive rice milling industry leading to low profitability. The ratings continue to take note of 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. The rating however, continue to favourably factor in the takes into account the moderate financial risk profile.

Further to this, the rating is withdrawn in accordance with ICRA's policy on withdrawal and suspension at the request of the company, based on no objection certificate provided by its banker.

Key rating drivers and their description

Credit Strengths

Moderate financial risk profile - The company's financial risk profile remains moderate reflected by healthy growth in the operating income that grew at a CAGR of 61% to Rs. 481.72 crore in FY2019 from Rs. 115.67 crore in FY2016. In 9MFY2020, the company has reported an operating income of Rs. 354.30 crore. MFL's operations remains low value added in nature, thus resulting in low operating and net profitability of 5.01% and 2.48% respectively in FY2019. In 9MFY2020, the company has reported operating and net profitability of 5.06% and 2.53% respectively. The company's net worth increased to Rs. 69.18 crore as on March 31, 2019, from Rs. 11.79 crore as on March 31, 2017, mainly supported by periodical equity infusion and the accretions to reserves. The capital structure and coverage indicators remain average for FY2019. The working capital intensity continues to remain high as reflected by increase in NWC/OI at 21% FY2019.

Credit Challenges

Significant decline in the share price limiting financial flexibility- MFL's shares are listed on BSE and there has been significant decline in the share prices from Rs. 39/ share in August 2019 to Rs. 6.82/share in February 2020 constraining financially flexibility for the company.

Recent allegation on the promoters and key managerial personnel raises questions on the company's corporate governance- There have been news article which states that there have been allegations against the directors and Key managerial personnel of Mishtann Foods Limited for mismanagement/misappropriation of funds and forgery of cheques/digital signatures leading to police compliant which puts strain on the company's corporate governance.

Low value-added operations along with high working capital intensity - The working capital intensity continues to remain high as reflected by increase in NWC/OI at 21% FY2019.

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 and the brand 'Mishtann' has limited brand visibility is limited, which is further aggravated by the intense competition.

High geographical and product concentration risk – The company faces geographical concentration risk (~73% of the total revenue in FY2019 was derived from the South Indian market) and product concentration risk as basmati rice contributes 95% of revenues in FY2019.

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.

Liquidity position: Stretched

The liquidity position of the company remains stretched as marked by highly utilized cash credit limits.

Rating sensitivities- Not applicable as the rating has been withdrawn

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Issuers in Indian Rice Industry ICRA's policy on withdrawal and suspension
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.

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. In 9MFY2020, the company has reported a net profit of Rs. 9.0 crore on an operating income of Rs. 354.30 crore.

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 outside liability/TNW (times)	1.01	0.66
Total Debt/OPBDIT (times)	2.35	1.64
Interest Coverage (times)	4.18	6.02
DSCR (times)	2.29	3.23

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2020)					Rating History for the Past 3 Years				
		Type	Amount Rated	Amount Outstanding	Rating		FY2019			FY2018	FY2017
					26-Feb-2020	29-Aug-2019	7-Jun-2018	29-May-2018	6-April-2018	4-Aug-2017	-
1	Cash Credit	Long Term	37.95	NA	[ICRA]BB+ (Stable); withdrawn	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]B (Stable) ISSUER NOT CO-OPERATING withdrawn	[ICRA]B (Stable) ISSUER NOT CO-OPERATING	-
2	Term Loan	Long Term	2.59*	NA	[ICRA]BB+ (Stable); withdrawn	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]B (Stable) ISSUER NOT CO-OPERATING withdrawn	[ICRA]B (Stable) ISSUER NOT CO-OPERATING	-
3	Unallocated Limits	Long Term	1.46		[ICRA]BB+ (Stable); withdrawn	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)			

*as on March 31, 2019

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]BB+ (Stable); withdrawn
NA	Term Loan	FY2016	NA	FY2022	2.59	[ICRA]BB+(Stable); withdrawn
NA	Unallocated Limits	NA	NA	NA	1.46	[ICRA]BB+(Stable); withdrawn

Source: Mishtann Foods Limited

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

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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

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