Mishtann Foods Limited

June 07, 2018

Summary of rated instruments

Instrument	Previous Rated Amount (Rs. Crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based – Working Capital	25.00	25.00	[ICRA]BBB (Stable); Outstanding
Fund-based – Term Loan	0.00	4.00	[ICRA]BBB (Stable); Assigned
Fund-based –Unallocated Limits	0.00	13.00	[ICRA]BBB (Stable); Assigned
Total	**25.00**	**42.00**	

Rating action

ICRA has an outstanding long-term rating of [ICRA]BBB (pronounced ICRA triple B) to the Rs. 25.00-crore[1] fund-based working capital facility of Mishtann Foods Limited (MFL or the company)[2]. ICRA has assigned the long-term rating of [ICRA]BBB (pronounced ICRA triple B) to the Rs. 4.00-crore term loan facility (enhanced from nil) and Rs. 13.00-crore fund-based unallocated limits (enhanced from nil). The outlook on the long-term rating is Stable.

Rationale

The assigned rating favourably factors in the extensive track record of the promoters in the agro-commodity industry and its established relationship with its customers and suppliers as evident from MFL's substantial revenue growth of ~122% in FY2017 and ~51% in FY2018. The rating further positively considers the improvement in its gearing level (0.89 times as on March 31, 2018 as against 3.07 times as on March 31, 2017) on account of an equity infusion of Rs. 21.00 crore in FY2018 and the proposed conversion of the unsecured loan. The further equity infusion cumulating to Rs. 18.98 crore in FY2019 is likely to strengthen its capital structure.

The rating, however, is constrained by the limited track record of the company, with operations started from January 2015 only, limited brand visibility, low operating profitability on account of non-integrated nature of rice milling business and high working capital intensive nature of business. The rating further remains constrained by the intense competition in the rice industry, MFL's geographical and product concentration risk and vulnerability of operations to monsoon and other agro-climatic risks, which may 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 and the proposed equity infusion going forward. The outlook may be revised to Positive if substantial growth in profitability and better working capital management improves the overall liquidity and financial profile. The outlook may be revised to Negative in case of any deterioration in profitability or any debt-funded capital expenditure or if elongation in the working capital cycle leads to a stretch in liquidity. Further, any financial support to Group concerns would also remain a key rating monitorable.

[1] *100 lakh = 1 crore = 10 million*

[2] *For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications*

Key rating drivers

Credit strengths

Extensive track record of promoters in the 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 venturing into MFL. Accordingly, MFL benefits in terms of established relationships with its suppliers and customers.

Healthy revenue growth with improved capital structure and coverage indicators - MFL's operating income (OI) grew at ~122% in FY2017 and ~51% in FY2018 supported by increased sales volume and sales realisation of basmati rice in the domestic market. Its promoters and shareholders have infused an equity to the tune of Rs. 21.00 crore through preferential allotment in FY2018 resulting in a comfortable gearing of 0.89 times as on March 31, 2018 compared to 3.07 times as on March 31, 2017. The debt protection metrics also improved with the interest coverage at 4.15 times, NCA/TD of 22% and DSCR of 2.27 times as on March 31, 2018. Further, the expected equity infusion (Rs. 6.47 crore) and conversion of unsecured loan (Rs. 12.51 crore) to equity in FY2019 is likely to further result into comfortable gearing levels.

Credit challenges

Limited track record of operations and brand visibility - The company has a limited track record in processing basmati rice as operations commenced from January 2015. Further, the brand – 'Mishtann' is relatively new in the industry with limited visibility, though the promoters were earlier trading under the 'Mishtann' brand in erstwhile Ravi Trading Co. Given the brand recognition is yet to be established in the operational geographies in India, MFL is constrained in terms of pricing/bargaining power vis-à-vis other established branded basmati rice players.

Low profitability and high working capital intensity impacts liquidity - MFL's operating profit margin remained low at 3.43% in FY2018 with a higher raw material to OI ratio of 96% (due to non-integrated operations) and commission charges paid to agents/super stockist (~4% of the sales value). The rice milling business remains working capital intensive in nature, with high requirement to stock paddy in season. Unlike other established players, MFL is unable to stock paddy during the season due to limited availability of working capital, leading to a relatively higher procurement cost, though lower inventory shields the company against any adverse movement in the raw material prices. Further, being a relatively new entrant with medium-sized operations, the company has to pay higher commission to super stockist to push its products and to realise receivables earlier than the industry practice due to limited working capital funds available. These factors have impacted the overall margins and also led to high utilisation of its working capital limits.

High product and geographical concentration risk - MFL's major end-product remains basmati rice, which contributed to 86% of its sales revenue in FY2018 followed by wheat (9%) and pulses (5%). Furthermore, ~73% of the total revenue in FY2018 was derived from the South Indian market, thus leading to susceptibility to slowdown in a particular geography/market, which may impact its stability to revenues and accruals in case of adverse situations.

Low entry barriers result in intense competition - The basmati rice industry is intensely competitive and fragmented because of the presence of established players as well as numerous small players in the unorganised sector. Given the low capex and technical complexity of work, the entry barriers have remained low, resulting in the presence of a large number of small-to-medium scale enterprises.

Vulnerability to the 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 the 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 buy paddy of consistent quality at prudent price remains the key to success in the rice industry.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria:
[Corporate Credit Rating Methodology]

[Rating Methodology for Issuers in the India Rice industry]

About the company:

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

The present promoters of MFL i.e., the Patel family has a vast experience in agro-commodity space through their Group concern namely Ravi Trading Co. (RTC), which was involved in cleaning, processing and trading of wheat and other agro-commodity . At present, the promoters discontinued the operations of RTC and have ventured into a greenfield project namely Swarnim Foods Private Limited to undertake the processing of wheat.

Key financial indicators (Audited):

	FY2017	FY2018
Operating Income (Rs. crore)	256.72	387.53
PAT (Rs. crore)	1.34	5.61
OPBDIT/OI (%)	2.91%	3.43%
RoCE (%)	12.61%	19.76%
Total Debt/TNW (times)	3.07	0.89
Total Debt/OPBDIT (times)	4.85	2.56
Interest coverage (times)	2.78	4.15

Status of non-cooperation with previous CRA: Not Applicable

Any other information: None

Rating history for last three years:

	Instrument	Current Rating (FY2019) Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating June-18	Date & Rating May-18	Date & Rating Apr-18	Chronology of Rating History for the past 3 years: Date & Rating in FY2018 Aug-17	Date & Rating in FY2017	Date & Rating in FY2016 Feb-16
1	Cash Credit	Long Term	22.00	17.00^	[ICRA] BBB (Stable)	[ICRA] BBB (Stable)	[ICRA]B (Stable) ISSUER NOT COOPERATING* Withdrawn	[ICRA]B(Stable) ISSUER NOT COOPERATING*	-	[ICRA] B
2	Proposed Cash Credit	Long Term	3.00	-	[ICRA] BBB (Stable)	[ICRA] BBB (Stable)	-	-	-	-
3	Term Loan	Long Term	4.00	4.47^	[ICRA] BBB (Stable)	-	-	-	-	-
4	Unallocated	Long Term	13.00	-	[ICRA] BBB (Stable)	-	-	-	-	-

** Issuer did not co-operate; based on best available information, ^as on March 31, 2018*

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	-	-	-	22.00	[ICRA]BBB (Stable)
NA	Proposed Cash Credit	-	-	-	3.00	[ICRA]BBB (Stable)
NA	Term Loan	FY2016	-	FY2020	4.00	[ICRA]BBB (Stable)
NA	Unallocated	-	-	-	13.00	[ICRA]BBB (Stable)

Source: Mishtann Foods Limited

ANALYST CONTACTS

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

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

Preet Ludhwani
+91 79 4027 1525
preet.ludhwani@icraindia.com

Mayank Agrawal
+91 79 4027 1514
mayank.agrawal@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:

+91-124-2866928 (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,
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