February 28, 2022

M/S Shiv Dal Mill: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund Based – Cash Credit	5.00	5.00	[ICRA]BB- (Stable); Reaffirmed
Fund Based – Term Loan	2.01	1.18	[ICRA]BB- (Stable); Reaffirmed
Unallocated Limit	2.99	3.82	[ICRA]BB- (Stable); Reaffirmed
Total	**10.00**	**10.00**	

**Instrument details are provided in Annexure-1*

Rationale

The rating reaffirmation considers the low gearing and comfortable debt coverage metrics of M/S Shiv Dal Mill (SDM), aided by reduction in debt and retention of capital by partners in the recent years. Term loan pre-payments by the firm led to a consistent de-leveraging in the recent years. It availed fresh term loans on account of the pandemic in FY2021 but has prepaid a significant portion of the loans. ICRA also notes SDM's comfortable return on capital employed, given a relatively lower capital intensive nature of operations and moderate profits earned at an absolute level. Besides, the rating continues to draw comfort from the extensive experience of the promoters in the agro-product based industries.

The rating is, however, constrained by the firm's small scale of current operations due to limited geographical coverage of sales and the fragmented and competitive nature of the pulse milling industry, which is likely to keep the profit margin of the players, including SDM, under check. ICRA also considers the firm's vulnerability to the price fluctuation of pulses and the risks associated with the entity's status as a partnership firm, including the risk of capital withdrawal by the partners, going forward.

The Stable outlook on the [ICRA]BB- rating reflects ICRA's opinion that SDM's revenues and cash accruals are likely to remain stable, going forward, despite a decline in sales volume over the last two fiscals. Besides, the firm's limited borrowings are likely to keep its capital structure and debt coverage metrics comfortable.

Key rating drivers and their description

Credit strengths

Promoters' experience in agro-product based businesses – SDM started its commercial operations in April 2017. The partners also have experience in other agro-product based businesses through Group entities like Shiv Rice Mill (involved in rice milling since 2008) and Shiv Biri Manufacturing Co. Private Limited (involved in biri manufacturing since 1998).

Low gearing and comfortable debt coverage metrics, aided by reduction in debt and retention of partners' capital – SDM's gearing declined gradually in the recent years, aided by pre-payment of term loans and retention of partners' capital. In FY2021, the firm's working capital borrowing declined significantly, resulting in a reduction in gearing to 0.2 times as on March 31, 2021 from 0.5 times as on March 31, 2020. In FY2021, SDM availed two term loans (Rs. 1.18 crore and Rs. 0.5 crore) because of the Covid-19 pandemic but has already prepaid a significant portion of the same. The firm's debt coverage metrics also improved steadily in the recent years with a reduction in debt. In FY2021, its interest coverage, total debt relative to OPBDITA and net cash accrual relative to total debt stood at 7.6 times (6.3 times in FY2020), 0.9 times (1.6 times in FY2020) and 41% (31% in FY2020), respectively.

Comfortable ROCE – The firm's ROCE remained comfortable at around 16-17% over the last three fiscals due to relatively lower capital-intensive nature of the business and moderate profits at an absolute level. In FY2021, SDM's ROCE declined to some extent to 15.6% from 17.4% in the previous year, however, the same is likely to remain at a comfortable level, going forward.

Credit challenges

Small scale of current operations with a limited geographical coverage – SDM currently derives a major portion of its revenue from West Bengal, mainly from the Murshidabad district. Limited geographical coverage of sales coupled with subdued demand of pulses from SDM's customer segments adversely impacted its scale of operations over the last two fiscals, as reflected by a low capacity utilisation of 36-37%. The firm's production and sales volume are unlikely to improve materially in the current fiscal, however, an improvement in average realisations would support its revenue, to some extent.

Fragmented and competitive nature of the industry likely to keep margins under check – The pulse milling industry is characterised by a highly fragmented industry structure and intense competition due to low product differentiation, which limits the pricing flexibility of the participants. This is likely to keep the profit margins of all the players in the industry, including SDM, under check.

Vulnerability to commodity (pulses) price movements – Pulse harvesting mainly depends on agro-climatic conditions, which impact the raw material availability and prices. The firm also remains exposed to other risks inherent in an agro-based business, including a shift in food consumption pattern due to price fluctuation, changes in Government policies in relation to the stipulation of the minimum support price (MSP) for procurement of agro products from farmers and revision of policies on import/ export etc. While the margins remain susceptible to the price movement of the agro products that are subject to climatic conditions and Government intervention, the sales volumes remain susceptible to the consumers' food consumption patterns. The demand for pulses from SDM's customer segments has declined since FY2020, mainly due to a significant price rise, affecting the firm's sales volumes.

Risks associated with the entity's status as a partnership firm – SDM remains exposed to the risks associated with a partnership firm. Any significant capital withdrawal by the partners may adversely impact the firm's net worth and liquidity. However, SDM's partners have not withdrawn any significant amount of capital or interest thereon, so far.

Liquidity position: Stretched

SDM's liquidity position is **stretched.** Its cash flow from operations turned negative in FY2021 and the free cash balance declined to around Rs. 0.2 crore as on March 31, 2021 from around Rs. 4.7 crore in the previous year due to a significant increase in inventories. The firm's undrawn working capital limit remained modest at around Rs. 1.2 crore at the end of January 2022. Nevertheless, low term loan repayment obligation (Rs. 0.2-0.4 crore annually in the next two fiscals) due to pre-payment of the loans and absence of any major capex plans are likely to support the firm's liquidity, to some extent.

Rating sensitivities

Positive factors – A sustained growth in the scale of operations and profitability and a consequent improvement in SDM's net worth and liquidity position may lead to a rating upgrade.

Negative factors – Pressure on SDM's rating may arise if there is a significant decline in the firm's revenues and profits. Weakening of the firm's liquidity position may also trigger a rating downgrade.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not Applicable
Consolidation/Standalone	The rating is based on the standalone financial statements of the entity.

About the company

SDM was established as a partnership firm in August 2014 by Mr. Jakir Hossain and Mr. Montu Rahaman for milling of pulses. In April 2016, Mrs. Mira Bibi joined as a partner. SDM is involved in pulse milling with an installed capacity of 80 metric tonnes per day at its manufacturing facility located at Murshidabad, West Bengal. The commercial operations of the facility commenced in April 2017.

Key financial indicators (audited)

SDM Standalone	FY2020	FY2021
Operating Income (Rs. crore)	38.1	34.8
PAT (Rs. crore)	1.7	1.7
OPBDIT/OI (%)	9.6%	9.5%
PAT/OI (%)	4.4%	5.0%
Total Outside Liabilities/Tangible Net Worth (times)	0.7	0.5
Total Debt/OPBDIT (times)	1.6	0.9
Interest Coverage (times)	6.3	7.6

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Status of non-cooperation with previous CRA:

CRA	Status of non-cooperation	Date of Press Release
CARE Ratings	CARE B; Stable; ISSUER NOT COOPERATING; Rating continues to remain under ISSUER NOT COOPERATING category	August 19, 2021

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Mar 31, 2021 (Rs. crore)	Date & Rating in	Date & Rating in FY2021		Date & Rating in FY2020	Date & Rating in FY2019
					Feb 28, 2022	Nov 24, 2020	Apr 07, 2020	May 30, 2019	-
1	Fund Based – Cash Credit	Long term	5.00	-	**[ICRA]BB- (Stable)**	[ICRA]BB- (Stable)	[ICRA]B+ (Stable)	[ICRA]B+ (Stable) ISSUER NOT COOPERATING	-
2	Fund Based – Term Loan	Long term	1.18	1.18	**[ICRA]BB- (Stable)**	[ICRA]BB- (Stable)	[ICRA]B+ (Stable)	[ICRA]B+ (Stable) ISSUER NOT COOPERATING	-
3	Unallocated Limit	Long term	3.82	-	**[ICRA]BB- (Stable)**	[ICRA]BB- (Stable)	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long term – Fund Based (Cash Credit)	Simple
Long term – Fund Based (Term Loan)	Simple
Long term – Unallocated Limit	Not applicable

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 analyzing 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, is available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN No.	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. Crore)	Current Rating and Outlook
NA	Fund Based – Cash Credit	NA	NA	NA	5.00	[ICRA]BB- (Stable)
NA	Fund Based – Term Loan (Guaranteed Emergency Credit Line)	May 29, 2020	NA	May 10, 2024	1.18	[ICRA]BB- (Stable)
NA	Unallocated Limit	NA	NA	NA	3.82	[ICRA]BB- (Stable)

Source: *Company*

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.

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