

Rating Advisory

September 27, 2019 | Mumbai

Megastar Foods Limited

Advisory as on September 27, 2019

This rating advisory is provided in relation to the rating of Megastar Foods Limited

The key rating sensitivity factors for the rating include:

- Topline and profitability
- Capital expenditure (capex) and funding
- Working capital management

CRISIL Ratings has a policy of keeping its accepted ratings under constant and ongoing monitoring and review. Accordingly, it seeks regular updates from companies on business and financial performance. CRISIL is yet to receive adequate information from Megastar Foods Limited (MFL) to enable it to undertake a rating review. CRISIL is taking all possible efforts to get the rated entity to cooperate with its rating process for enabling it to carry out the rating review.

CRISIL views information availability risk as a key factor in its assessment of credit risk. (Please refer to CRISIL Ratings publication dated April 30, 2012 - 'Information Availability - a key risk factor in credit ratings')

If MFL continues to delay the provisioning of information required by CRISIL to undertake a rating review then, in accordance with circular SEBI/HO/MIRSD/MIRSD4/CIR/P/2016/119 dt Nov 1, 2016 and SEBI/HO/MIRSD/ MIRSD4/ CIR/ P/ 2017/ 71 dt June 30, 2017 issued by Securities and Exchange Board of India, CRISIL will carry out the review based on best available information and issue a press release.

About The Company

Incorporated in 2011 and promoted by Mr Vikas Gupta, Mr Vikas Goel, and Mr Pankaj Goyal, MFL processes wheat to produce *maida*, *suji*, *atta*, and bran at its unit in Chandigarh, which has capacity of 275 tonne per day. The company was listed on the Bombay Stock Exchange in fiscal 2019.

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Rating Rationale

August 24, 2018 | Mumbai

Megastar Foods Limited

Long-term rating upgraded to 'CRISIL BB+/Stable'

Rating Action

Total Bank Loan Facilities Rated	Rs.28.92 Crore (Enhanced from Rs.23.5 Crore)
Long Term Rating	CRISIL BB+/Stable (Upgraded from 'CRISIL BB/Stable')
Short Term Rating	CRISIL A4+ (Assigned)

1 crore = 10 million

Refer to annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL has upgraded its rating on the long-term bank facilities of Megastar Foods Limited (MFL) to '**CRISIL BB+/Stable**' from 'CRISIL BB/Stable' and assigned its '**CRISIL A4+**' rating to its short-term facility.

The upgrade reflects expected improvement in financial risk profile with likely increase in networth following issuance of shares post initial public offering in May 2018 that led to infusion of Rs 8.04 crore in the company. As a result, gearing is expected to improve to 1.8-2.2 times as on March 31, 2019, from 3.5 times as on March 31, 2018. The upgrade also factors in the expected improvement in scale of operations in fiscal 2019 on account of increase in capacity utilisation to 80% in the current fiscal from 60-65% in fiscal 2018. Turnover was Rs 102 crore in fiscal 2018. With infusion of funds, the company's dependence on external bank funding is also expected to remain limited and hence aid liquidity over the medium term.

The ratings reflect the extensive experience of MFL's promoters in the flour mill industry and their funding support, and established clientele. These strengths are partially offset by an average financial risk profile; modest scale of operations in a highly fragmented industry; high working capital requirements and exposure to changes in monsoon pattern and government policy.

Key Rating Drivers & Detailed Description

Strengths

* **Extensive experience of promoters:** Presence of around 18 years in the flour mill business through group entities has enabled the promoters to develop strong relationship with traders and suppliers.

* **Established customer base:** Within seven years of operations, the company has successfully marketed products to institutional clients such as Jubilant FoodWorks Ltd, ITC Ltd, and Nestle India Ltd; as well as to wholesalers.

* **Expected improvement in gearing:** Infusion of funds on account of issuance of shares is expected to improve gearing to 1.8-2 times as on March 31, 2019, from 3.5 times as on March 31, 2018.

Weaknesses

* **Average debt protection metrics:** Modest profitability led to muted debt protection metrics, with net cash accrual to total debt and interest coverage ratios of 0.07 time and 1.8 times, respectively, for fiscal 2018.

* **Exposure to changes in monsoon pattern and government policy:** The company procures wheat from farmers during the harvest season and from the Food Corporation of India (FCI) during off-season. Shortage in wheat production due to irregular monsoon may adversely affect operations and profitability. Margin is also susceptible to government policies on wheat, such as statutory minimum price, quota allocation by FCI, and control over imports.

* **High working capital requirements:** Gross current assets rose to 110 days as on March 31, 2018, from 76 days as on March 31, 2017, on account of increase in inventory to 76 days from 26 days. Inventory has increased as on March 31, 2018 due to change in company's policy to increase stocking of wheat post increase in minimum support price by government of India in fiscal 2019.

Outlook: Stable

CRISIL believes MFL will continue to benefit from extensive experience of the promoters in the flour mill industry and established clientele. The outlook may be revised to 'Positive' if sustained revenue growth and higher-than-expected cash accrual lead to an improved financial risk profile. The outlook may be revised to 'Negative' if lower-than-expected net cash accrual, sizeable working capital requirement, or substantial debt-funded capital expenditure further weakens financial risk profile, particularly liquidity.

About the Company

Incorporated in 2011 and promoted by Mr Vikas Gupta, Mr Vikas Goel, and Mr Pankaj Goyal, MFL processes wheat to produce maida, suji, atta, and bran at its unit in Chandigarh, which has capacity of 275 tonne per day. The company was listed on the Bombay Stock Exchange in fiscal 2019.

Key Financial Indicators

Particulars	Unit	2018	2017
Revenue	Rs.Crore	102.8	97.7
Profit After Tax (PAT)	Rs.Crore	1.30	1.05
PAT Margins	%	1.3	1.1
Adjusted debt/adjusted networkth	Times	3.58	3.04
Interest coverage	Times	1.87	1.84

Status of non cooperation with previous CRA

MFL has not cooperated with Credit Analysis & Research Ltd. (CARE) which has Classified it as Non Cooperative vide release dated November 28th 2017. The reason provided by CARE is non-furnishing of information required for monitoring of ratings.

Any other information: Not applicable

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Annexure - Details of Instrument(s)

ISIN	Name of Instrument	Date of Allotment	Coupon Rate (%)	Maturity Date	Issue Size (Rs.Crore)	Rating Assigned with Outlook
NA	Bank Guarantee	NA	NA	NA	0.5	CRISIL A4+
NA	Cash Credit	NA	NA	NA	25	CRISIL BB+/Stable
NA	Term Loan	NA	NA	Jun-2023	3.42	CRISIL BB+/Stable

Annexure - Rating History for last 3 Years

		Current		2018 (History)		2017		2016		2015		Start of 2015
Instrument	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund-based Bank Facilities	LT/ST	28.42	CRISIL BB+/Stable			04-09-17	CRISIL BB/Stable	02-11-16	Suspended	30-06-15	CRISIL BB-/Stable	CRISIL B+/Stable
Non Fund-based Bank Facilities	LT/ST	0.50	CRISIL A4+		--		--		--		--	--

All amounts are in Rs.Cr.

Annexure - Details of various bank facilities

Current facilities			Previous facilities		
Facility	Amount (Rs.Crore)	Rating	Facility	Amount (Rs.Crore)	Rating
Bank Guarantee	.5	CRISIL A4+	Cash Credit	20	CRISIL BB/Stable
Cash Credit	25	CRISIL BB+/Stable	Term Loan	3.5	CRISIL BB/Stable
Term Loan	3.42	CRISIL BB+/Stable	--	0	--
Total	28.92	--	Total	23.5	--

Links to related criteria

[CRISILs Approach to Financial Ratios](#)

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[Rating criteria for manufacturing and service sector companies](#)

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