

Press Release

Ali Afzal Flour Mill Limited

July 05, 2018

Rating Assigned



Total Bank Facilities Rated*	Rs. 18.40 Cr.
Long Term Rating	ACUITE B+ / Outlook: Stable

* Refer Annexure for details

Rating Rationale

Acuite has assigned long-term rating of '**ACUITE B+**' (read as **ACUITE B plus**) on the Rs.18.40 crore bank facilities of Ali Afzal Flour Mill Limited. The outlook is '**Stable**'.

The Uttar Pradesh based, M/S Ali Afzal Flour Mill Limited (erstwhile M/S Ali Afzal Flour Mill) was established as a partnership firm in 2005 and got converted into Public Limited Company (Unlisted) in 2016. The company is engaged in processing of maida, sooji, atta and bran.

Key Rating Drivers

Strengths

- Experienced management**

The company is promoted by Mr. Abdul Mannan (Managing Director), Mrs. Nazmeen Akhtar (Director) and Mr. Mohd Monis (Director) having over a decade of experience individually in the flour milling industry. This has resulted in healthy relationship with suppliers and repetitive orders from its customers.

- Comfortable working capital operations**

The company has comfortable working capital cycle marked by Gross Current Assets (GCA) of 88 days in FY2018 (Provisional) as against 76 days in FY2017. This is on account of debtors of 69 days in FY2018 (Provisional) as against 36 days in FY2017 and inventory of 9 days in FY2018 (Provisional) as against 4 days in FY2017. The cash credit utilisation is 52.73 percent for six months ended 31 March, 2018.

- Moderate financial risk profile**

The financial risk profile is moderate marked by net worth of Rs.6.30 crore as on 31 March, 2018 (Provisional) as against Rs.4.88 crore as on 31 March, 2017. The gearing (debt-to-equity ratio) stood comfortable at 0.39 times as on 31 March, 2018 (Provisional) compared to 0.29 times in the previous year. This is mainly due to increase in working capital requirements and unsecured loans from directors resulting in increased debt. The total debt of Rs.2.46 crore as on 31 March, 2018 (Provisional) is working capital borrowings. The interest coverage ratio (ICR) improved to 3.52 times for FY2018 (Provisional) from 1.92 times in FY2017. The net cash accruals to total debt (NCA/TD) stood at 0.22 times in FY2018 (Provisional) compared to 0.13 times in FY2017.

Weaknesses

- Modest scale of operations and thin profitability**

AAFML's scale of operations is modest marked by operating income of Rs.36.36 crore in FY2018 (Provisional) as against Rs.26.47 crore in FY2017. The increase is mainly due to completed capital expenditure and increased orders from existing customers. The operating margins (EBIDTA) improved to 2.55 percent in FY2018 (Provisional) from 1.57 percent in FY2017. The profit after tax margins (PAT) improved to 1.03 percent in FY2018 (Provisional) from 0.24 percent in FY2017. However, the profitability is expected to remain low due to the low additive nature of business.

• Exposure to agro climatic risk and government regulations

Wheat is the main raw material for the production of aata, maida, sooji. The production of wheat mainly depends on agro climatic conditions. Any adverse change in the agro climatic conditions may interrupt the supply chain of wheat. Further, the prices of wheat are highly regulated by the government through MSP (Minimum Support Price) that may create pressure on AAFML's profitability.

Analytical Approach

Acuite has considered the standalone business and financial risk profiles of AAFML to arrive at the rating.

Outlook: Stable

Acuite believes that AAFML will maintain 'Stable' outlook over the medium term on the back of experienced management and comfortable working capital operations. The outlook may be revised to 'Positive' if the company registers higher-than-expected growth in revenues along with improvement in the financial risk profile. Conversely, the outlook may be revised to 'Negative' in case of significant elongation in the working capital cycle or if the company registers lower-than-expected growth in revenue and profitability or deterioration in the financial risk profile.

About the Rated Entity - Key Financials

	Unit	FY18 (Provisional)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	36.36	26.47	32.97
EBITDA	Rs. Cr.	0.93	0.42	0.60
PAT	Rs. Cr.	0.37	0.06	0.05
EBITDA Margin	(%)	2.55	1.57	1.81
PAT Margin	(%)	1.03	0.24	0.15
ROCE	(%)	10.20	5.77	9.37
Total Debt/Tangible Net Worth	Times	0.39	0.29	0.33
PBDIT/Interest	Times	3.52	1.92	1.55
Total Debt/PBDIT	Times	2.62	3.34	1.73
Gross Current Assets (Days)	Days	88	76	45

Status of non-cooperation with previous CRA (if applicable)

None

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Not Applicable

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE B+ / Stable (Assigned)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	13.40	ACUITE B+ / Stable (Assigned)

Contacts

Analytical	Rating Desk
Suman Chowdhury President - Rating Operations Tel: 022-67141107 suman.chowdhury@acuite.in Leena Gupta Analyst - Rating Operations Tel: 022-67141172 leena.gupta@acuite.in	Varsha Bist Manager - Rating Desk Tel: 022-67141160 rating.desk@acuite.in

About Acuité Ratings & Research:

Acuité Ratings & Research Limited (Erstwhile SMERA Ratings Limited) is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 6,000 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Mumbai.

Disclaimer: An Acuité rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. Acuité ratings are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, Acuité, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. Acuité is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind arising from the use of its ratings. Acuité ratings are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website (www.acuite.in) for the latest information on any instrument rated by Acuité.