Press Release

Harmony Foods Private Limited

October 24, 2018

Rating Assigned

Total Bank Facilities Rated*	Rs. 17.50 Cr.
Long Term Rating	ACUITE BBB- / Outlook: Stable

** Refer Annexure for details*

Rating Rationale

Acuité has assigned long-term rating of '**ACUITE BBB-**' **(read as ACUITE BBB minus)** on the Rs. 17.50 crore bank facilities of Harmony Foods Private Limited. The outlook is **'Stable'**.

Harmony Foods Private Limited (HFPL) is a Guwahati based company incorporated in the year 2004. It is engaged in the business of roller flour milling. The company product line includes Atta, Maida, Suji and Bran. It caters to industries such as bakery and biscuits, hotels and restaurants, aqua feed and other retail industries. The company sells its products to more than 400 customers under the brand name 'Harmony'. The manufacturing plant is located at Vishakhapatnam with an installed capacity of 350 tonnes per day (TPD).

Key Rating Drivers

Strengths

- **Experienced management and long track record of operations**
The promoter of the company Mr. Dilip Kumar Maheshwari and family possess more than two decades of experience in the flour milling industry. The promoter is also running 'Maheshwari Floor Mills' since 1984. Experience of the management in the industry helped the company in maintaining long standing relationship with customers and adding new clients to its customer portfolio. HFPL supplies to some of the renowned customers such as Avanti Feeds Limited, Glaxosmithline Consumer Healthcare Limited, CPF (India) Pvt Ltd, Sri Lakshmi Sai Traders among others. The same has reflected in healthy revenue growth. Revenues of the company grew at a compound annual growth rate (CAGR) of 20.37 percent from Rs.115.15 crore in FY2015 to Rs.200.87 crore in FY2018 (Provisional). This is on account of addition of new clients to its customer portfolio backed by increase in production capacity in FY2016-FY2017. Further, the company reported revenues of about Rs.96 crore for the 5MFY2019 (April 2018 to August 2018). Acuité believes that HFPL's long operational track record and diversified clientele is expected to support in improvement of the business risk profile over the medium term.

- **Healthy working capital cycle**
Working capital cycle of the company is comfortable which is evident from comfortable gross current assets (GCA) at 24 days in FY2018 (Provisional) as against 32 days in FY2017. This is on account of healthy debtor realization and inventory management. Receivables stood at 8 days in FY2018 as against 11 days in FY2017. Inventory is about 12 days in FY2018 as against 23 days in FY2017. Further, bank limit utilisation is about 39 percent for the last six months through July 2018. Acuité believes that the company's working capital operations are expected to be at similar levels over the medium term.

- **Healthy financial risk profile**
Financial risk profile of the company is healthy with healthy gearing (debt to equity ratio), total outside liabilities to total net worth (TOL/TNW) and comfortable debt protection metrics. Gearing stood healthy at 0.52 times as on March 31, 2018 (Provisional) as against 0.94 times as on March 31, 2017. TOL/TNW is healthy at 0.59 times as on March 31, 2018 (Provisional) as against 1.09 times in the previous year. Net worth stood at Rs.23.34 crore as on March 31, 2018 (Provisional) as against Rs.19.36 crore as on March 31, 2017. Of the total debt of Rs.12.05 crore as on March 31, 2018, long term debt constitutes Rs.3.69 crore and unsecured loans of Rs.8.36 crore. Debt protection metrics of interest coverage ratio and net cash accruals to total debt (NCA/TD) is comfortable at 3.98 times and 0.39 times respectively in FY2018 (Provisional). Further, debt service coverage ratio is comfortable at 2.38 times in FY2018 as

against 2.00 times in the previous year. Financial risk profile of the company is expected to be in the similar levels in the absence of major debt funded capital expenditure and moderate accretions to reserves.

Weaknesses

- **Fluctuation in operating margins**

  Due to low value addition in the roller flour milling business, operating margins remained thin for the last three years through FY2018. Further, operating margins of the company are fluctuating from the last three years through FY2018. This same is on account of fluctuation in raw material prices and carriage inwards. Operating margins improved from 2.55 percent in FY2016 to 5.08 percent on account of cheaper imports from the Vishakhapatnam port due to shortage of wheat in the domestic market. However, operating margins declined to 3.55 percent in FY2018 (Provisional) due to increase in carriage inwards on account of domestic procurement. Further, price of wheat depends on agro climatic conditions and regulatory framework which directly impacts the profitability.

- **Geographical concentration risk, highly fragmented and competitive industry**

  Despite diversified customer base, 70-75 percent of revenues come from coastal Andhra region, exposing to geographic concentration risk. Further, the company is operating in a highly competitive and fragmented industry with the presence of a large number of organised and unorganised players with a little differentiation in product line. This limits the bargaining power with customers, thereby putting pressure on its revenues and margins.

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of the HFPL to arrive at this rating.

Outlook: Stable

Acuité believes that HFPL will maintain a stable outlook over the medium term owing to its experienced management and diversified clientele. The outlook may be revised to 'Positive' in case of higher-than-expected growth in its revenues while improving its profitability. Conversely, the outlook may be revised to 'Negative' in case of any larger-than-expected debt-funded capex or any stretch in its working capital cycle leading to deterioration of its financial risk profile and liquidity.

About the Rated Entity - Key Financials

	Unit	FY18 (Provisional)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	200.87	169.63	124.39
EBITDA	Rs. Cr.	7.14	8.61	3.18
PAT	Rs. Cr.	1.49	1.47	0.99
EBITDA Margin	(%)	3.55	5.08	2.55
PAT Margin	(%)	0.74	0.87	0.79
ROCE	(%)	10.42	15.19	9.84
Total Debt/Tangible Net Worth	Times	0.52	0.94	1.26
PBDIT/Interest	Times	3.98	4.05	2.58
Total Debt/PBDIT	Times	1.69	2.10	6.10
Gross Current Assets (Days)	Days	24	32	41

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

None

Any other information

None

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. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	13.50	ACUITE BBB- / Stable
Term loans	Not Applicable	Not Applicable	Not Applicable	3.69	ACUITE BBB- / Stable
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	0.31	ACUITE BBB- / Stable

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About Acuité Ratings & Research:
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