

Press Release

Harmony Foods Private Limited

October 07, 2019



Rating Reaffirmed

Total Bank Facilities Rated*	Rs. 20.00 Cr.
Long Term Rating	ACUITE BBB-/ Stable (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed long-term rating of '**ACUITE BBB-**' (**read as ACUITE triple B minus**) on the Rs. 20.00 crore bank facilities of Harmony Foods Private Limited (HFPL). The outlook is '**Stable**'.

The rating reaffirmation is based on sustained growth in its revenues and in line with Acuite's expectations, financial risk profile continue to be healthy backed by efficient working capital management; however, the rating continues to factor in declining profitability margins year-over-year and highly fragmented and competitive industry.

Harmony Foods Private Limited (HFPL), incorporated in the year 2004, is promoted by Mr. Dilip Kumar Maheshwari and family. It is engaged in roller flour milling business. Its product line include atta, maida, suji and bran. The company's manufacturing facility is located at Visakhapatnam with an installed capacity of 120,000 TPA (Tons per annum). The products manufactured by the company are sold to end segments such as bakery, hotels and restaurants, aqua players and retailers. The company sells its product under the brand name 'Harmony'.

Analytical Approach

Acuité has taken a standalone view of the business and financial risk profile of HFPL to arrive at this rating.

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. The 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, Glaxosmithkline Consumer Healthcare Limited, CPF (India) Pvt. Ltd. and Devi Sea Foods, among others. The same is reflected in healthy revenue growth. Acuite believes that the promoters' long-standing presence and healthy clientele are expected to support in improvement of its business risk profile over the medium term.

- Healthy revenue growth**

The revenues of the company have grown at a compounded annual growth rate (CAGR) of 12.36 per cent over the past three years through FY2019 (provisional) from Rs. 200.82 crore in FY2018 to Rs. 240.64 crore in FY2019 (provisional). The presence of the company in the FMCG industry for more than a decade and its relation with its customers, including top names such as Glaxosmithkline and Avanti Feeds, has allowed the company to maintain the upward growth trajectory of its operating income. However, its top ten clients contribute about 20-30 per cent to its total revenues with no major revenue concentration. About 5 per cent comes from aqua segment for supply of bran, and rest comes from bakers, hotels and retailers. In the 4MFY2020, the company has earned a revenue of Rs.119.83 crore and its revenues are expected to be in the range of Rs.260-290 crore over the medium term. As on date, the company has orders in hand to the tune of Rs. 33 crore, to be executed in the next two months. The company's capex plans in FY2021 to expand its capacity by 60000 tons per annum is expected to boost the company's revenues by around Rs.80 – 100 crores. Acuite believes that healthy off-take from reputed and repeat clients and increasing consumption of wheat-based products are expected to support the revenue growth.

- **Healthy financial risk profile**

HFPL's financial risk profile is healthy, marked by a moderate networth, healthy gearing and comfortable debt protection metrics.

HFPL's networth is moderate at around Rs. 22.45 crore as on March 31, 2019 (provisional). The networth levels have improved over the last three years through FY2019 on account of comfortable accretion to reserves during the same period.

The company has followed a conservative financial policy in the past; the same is reflected through its peak gearing levels of 0.94 times as on March 31, 2017 and current gearing levels of 0.57 times as of March 31, 2019. The company incurred capex of Rs. 11.85 crore over the past three years; the same being supported by unsecured loans of around Rs. 6.00 crore, while the rest met out of accruals. The company has capex plans though at a drawing board stage currently; for increasing the milling capacity by about 60,000 TPA, which is likely to cost about Rs.10 crore. The same is likely in FY2021. With comfortable accruals, and efficient working capital management, the capex is likely to be majorly funded out of accruals and the capital structure is expected to be at similar levels over the medium term.

The revenues of the company have grown at a compounded annual growth rate (CAGR) of 12.36 per cent over the past three years through FY2019 (provisional), while its operating margins have declined. The moderate profitability levels coupled with low debt levels has led to comfortable debt protection measures. The NCA/TD and interest coverage ratio for FY2019 (provisional) were comfortable at 0.35 times and 3.04 times, respectively in FY2019, as against 0.43 times and 4.13 times in FY2018.

Acuite expects the financial risk profile continues to be healthy supported by comfortable accruals and efficient working capital management.

- **Efficient working capital management**

HFPL's working capital management is efficient, as reflected from its gross current asset (GCA) days of around 13 days as on March 31, 2019 (provisional). The company's inventory of around 7-25 days mainly consists of WIP and finished goods. HFPL pays its creditors within a week of procurement of raw materials and receives payments from its customers within a month, as reflected from its low debtors of 5-12 days and creditors of 0-2 days. Owing to the low inventory period, the reliance on working capital limits is low, leading to moderate utilisation of its bank lines at an average of 67 per cent over the past one year through July 2019, with the peak utilization high at around 98 per cent during the same period. Acuite expects the working capital management to remain efficient over the medium term on account of efficient receivables management and inventory holding.

Weaknesses

- **Sharp decline in profitability margins**

The operating margins of HFPL are declining consistently year-over-year; its peak operating margins were at 5.08 per cent in FY2017, which has declined to 3.53 per cent in FY2018 and further to 3.08 per cent in FY2019 (provisional). This is mainly due to the consistently high raw material cost, which the company has not been able to pass on to its customers; raw material cost varied in the range of 89-90 per cent of operating income over the past three years through FY2019. Further, price of wheat depends on agro climatic conditions and regulatory framework, which directly impacts the profitability. Acuite believes that stabilisation of its operating margins are key rating sensitivity factor over the medium term.

- **Highly fragmented and competitive industry**

HFPL is operating in a highly competitive and fragmented industry with the presence of a large number of organised and unorganised players with little differentiation in product line. This limits the bargaining power with customers, thereby putting pressure on its revenues and margins.

Key Rating Sensitivity Factors

- Improvement in the operating margins beyond 4 per cent.
- Decline in the operating income below 2.5 per cent.

Material Covenants

None

Liquidity Position

The liquidity position of HFPL is adequate, marked by gross current asset (GCA) days of around 13 in FY2019 (provisional). The net cash accruals of the company have been in the range of Rs. 4-5 crore during the period under study, whereas its current maturing debt obligations have been around Rs. 0.93 crore during the same period. Its accruals are expected to be in the range of Rs. 4-6 crores, as against current maturing debt obligations of Rs. 0.77 crore. The company has plans of capex for increasing the capacity by 60,000 tons per annum around FY2021. The cost of the entire project will be around Rs. 10 crore and is to be funded partly through its accruals and partly by unsecured loans and term loans from banks. Its limits are moderately utilised at 67 per cent during the past one year through July 2019. Acuité believes that going forward, the liquidity position of the company will continue to remain adequate on account of comfortable cash accruals and efficient working capital cycle.

Outlook: Stable

Acuité believes that HFPL will maintain a 'Stable' outlook over the medium term, owing to its experienced management, established relationship with customers coupled with diversified clientele. The outlook may be revised to 'Positive' in case of higher-than-expected growth in its revenues, while improving its profitability and diversifying the geographical concentration. Conversely, the outlook may be revised to 'Negative' in case of any further dip in its operating margins or 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	FY19 (Provisional)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	240.64	200.82	169.63
EBITDA	Rs. Cr.	7.40	7.09	8.61
PAT	Rs. Cr.	2.47	3.20	1.48
EBITDA Margin	(%)	3.08	3.53	5.08
PAT Margin	(%)	1.03	1.59	0.87
ROCE	(%)	15.89	15.26	15.21
Total Debt/Tangible Net Worth	Times	0.57	0.62	0.94
PBDIT/Interest	Times	3.04	4.13	4.05
Total Debt/PBDIT	Times	1.72	1.63	2.10
Gross Current Assets (Days)	Days	13	24	32

Status of non-cooperation with previous CRA

ICRA, vide its press release dated Jun 28, 2019, had denoted the rating of Harmony Foods Private Limited as 'ICRA BB+/A4+'. ISSUER NOT COOPERATING' on account of lack of adequate information required for monitoring of ratings.

Any other information

Not Applicable

Applicable Criteria

- Manufacturing Entities: <https://www.acuite.in/view-rating-criteria-4.htm>
- Application of Financial Ratios and Adjustments: <https://www.acuite.in/view-rating-criteria-20.htm>
- Default Recognition: <https://www.acuite.in/view-rating-criteria-17.htm>

Note on complexity levels of the rated instrument

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

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
24-Oct-2018	Cash Credit	Long Term	13.50	ACUITE BBB- / Stable (Assigned)
	Term Loan	Short Term	3.69	ACUITE BBB- / Stable (Assigned)
	Proposed Facility	Long term	0.31	ACUITE BBB- / Stable (Assigned)

***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	18.24	ACUITE BBB- / Stable (Reaffirmed)
Term Loan	Not Applicable	Not Applicable	Not Applicable	1.76	ACUITE BBB- / Stable (Reaffirmed)

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About Acuité Ratings & Research:

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