

Press Release

Pressana Flour Mills Private Limited

July 07, 2022



Rating Assigned

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	17.00	-	ACUITE A3 Assigned
Bank Loan Ratings	87.00	ACUITE BBB- Stable Assigned	-
Total Outstanding Quantum (Rs. Cr)	104.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has assigned its long term rating of '**ACUITE BBB-**' (read as **ACUITE triple B Minus**) and short term rating of '**ACUITE A3**' (read as **ACUITE A three**) on the Rs. 104.00 Cr bank facilities of PRESSANA FLOUR MILLS PRIVATE LIMITED (PFMPL). The outlook is '**Stable**'.

The rating reflects the promoter's extensive experience in flour mill industry, established client relationships with its reputed clientele comprising ITC Limited, Britannia Industries Limited, The Tamil Nadu Civil Supplies Corporation and The Kerala State Civil Supplies Corporation Limited amongst others. PFMPL, also benefits from the sustained improvement in the business risk profile. Revenue and operating margin increased to Rs. 294.05 Cr and 6.61%, respectively, in FY2022 (Provisional) from Rs.126.98 Cr and 5.47%, respectively, in FY2021, thereby resulting in cash accrual rising to Rs.12.58 Cr from Rs.4.44 Cr in the said period and efficient working capital management and favourable long-term outlook. These rating strengths are partially offset by above-average financial risk profile and working capital intensive operations, intensely competitive wheat products industry and susceptibility of profit margin to volatility in raw material prices.

About the Company

Incorporated in 2014, Pressana Flour Mills Private Limited (PFMPL) by Mr. Pollachi Srinivasan Senthil Kumar and his family members. The Company manufactures wheat products such as wheat flour (maida), unrefined wheat flour (atta), semolina (suji) and bran. The manufacturing facility is located at Coimbatore (Tamilnadu) with an installed wheat-grinding capacity of 300 MT/day. The company also trades in a large variety of agri produce such as pulses, and wheat-based products, Jaggery and salt, among others.

Analytical Approach

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

Key Rating Drivers

Strengths

Extensive experience of promoters in pulses milling industry

The company's day-to-day operations are looked after by Pollachi Srinivasan Senthil Kumar and his Wife Mrs. Senthilkumar Devikala and his son Mr. Senthil Kumar Anish Pressena, along with a team of experienced professionals. The promoters have an experience over a decade in the wheat flour processing industry. Over the years, PFMPL has expanded its manufacturing base and developed a wide distribution network. It has strong relationship with its customer and suppliers will continue to support the business. PFMPL clientele comprises ITC Limited, Britannia Industries Ltd, the Tamil Nadu Civil Supplies Corporation and the Kerala State Civil Supplies Corporation Limited among others. Acuité believes that the promoters' extensive experience has helped the company to establish long term relations with customers and suppliers and the same is reflected in steady growth in the scale of operations.

Strong revenue growth in FY2022; likely to continue in FY2023; Improved Margins

PFMPL's revenue grew by 131 y-o-y to Rs.294.05 Cr during FY2022 (Provisional) as against Rs.126.98 Cr in FY2021 due to healthy orders from its key clients, an increase in trading volumes (revenue of Rs. 82 Cr), a larger customer base of over 175 retail customers, and increased capacity overall led to the revenue growth. PFMPL operates in a market that has become commoditized. For the past 3 years ended in FY2022, PFMPL had modest EBITDA margins that steadily increased to 6.61 percent in FY22 (from 5.47 percent in FY21 and 4.33 percent in FY2020), due to the company's low-cost purchase of wheat, as well as increased sales realisation, value-added to its products, and the use of best manufacturing practices. Acuité believes that the scale of operations of the company is expected to improve over the medium term.

Reputed customer base and favourable demand prospects of the industry

Most of PFMPL customers are large and reputed players like ITC Limited, Britannia Industries Ltd, The Tamil Nadu Civil Supplies Corporation, The Kerala State Civil Supplies Corporation Limited, Manjilas Food Tech Private Limited amongst others resultant the company has been able to secure repeat orders from them. The wheat and pulses industry have favourable demand prospects in the domestic market, driven by varied applications and increasing population. Acuite believes that healthy relationship with reputed clientele and favourable demand prospects of the industry will aid in improving the business risk profile of the entity and also helps in improve its scale of operations

Efficient working capital management

The working capital cycle is efficiently managed as reflected in low gross current assets of 38-88 days during the last 3 years ended as on March 31, 2022, driven by low inventory 22-50 days and efficient receivables of 11-39 days. Its creditor days are at 2-8 days. This is because of easy availability of raw material and perishable nature of products and low credit provided to customers. This leads to reduced dependence on creditors and bank lines. Its bank limits are utilised at 61% over the last six months ended March 31, 2022. Acuite expects the working capital management to remain efficient over the medium term on account of the lean inventory levels maintained by the company/limited credit period extended to its customers.

Weaknesses

Above-average financial Risk Profile

The PFMPL's financial risk profile is above average, marked by modest net worth, leveraged capital structure and comfortable debt protection metrics. The tangible net worth of PFMPL is moderate at around Rs.30.81 Cr as on 31 March, 2022 (provisional) as against Rs.20.22 Cr as on 31 March, 2021 due to healthy accretion to reserves. The company has followed a moderate aggressive financial policy in the past, the same is reflected through its gearing and total outside liabilities to total net worth (TOL/TNW) stood at 2.32 times and 2.48 times as

on 31 March, 2022 (Provisional) vis-à-vis 1.60 times and 1.73 times as on 31 March, 2021. The debt protection metrics has improved and reported healthy; marked by interest coverage ratio and net cash accruals to total debt (NCA/TD) at 4.02 times and 0.18 times, respectively, in FY2022 as against at 2.54 times and 1.14 times, respectively, in FY2021. PFMPL's Debt/EBIDTA is stood at 3.50 times in FY2022 (FY2021: 4.36 times). Acuité believes that the PFMPL's financial risk profile will remain above average over the medium term.

Intense competition; increased geographical concentration risk

Tamilnadu continues to be the company's key market and contributed ~95% to its total sales in FY2022 and FY2021, which is expected to continue in the future. Further, the wheat and pulse milling industry is characterised by intense competition due to low product differentiation and consequent high fragmentation and low entry barriers

Exposure to agro-climatic risks and Government regulation changes

Wheat is the key raw material for the company. Thus, it remains exposed to agro-climatic conditions in the country and regulations related to procurement or pricing of agro commodities. Given its operations in an agro-based industry, PFMPL remains exposed to agro-climatic risks such as quality of raw material availability and pricing. Moreover, any change in Government regulations like minimum support price (MSP), adverse development on import policies, and export ban from overseas markets can also have a bearing on the performance of all industry players.

ESG Factors Relevant for Rating

Not Applicable

Rating Sensitivities

- Sustained improvement in scale of operation and operating margin leading to higher cash accruals.
- Deterioration in the working capital cycle or large, debt-funded capital expenditure impacting the credit profile.

Material covenants

None

Liquidity Position: Adequate

PFMPL has adequate liquidity marked by adequate net cash accruals to its maturing debt obligations. The PFMPL generated cash accruals of Rs. 3.14 to 12.58 Cr during the last three years through 2020-22, while its maturing debt obligations were in the range of Rs.2.60 to 2.90 Cr over the same period. The cash accruals of the Company are estimated to remain around Rs.11 to 14 Cr during 2023-25 while its repayment obligation are estimated to be around Rs. 2.50 to 4.00 Cr during the same period. The PFMPLs operations are efficiently managed as marked by gross current asset (GCA) days of 88 in FY 2022 (FY202: 66 days). This has led to moderate reliance on its working capital borrowings, the working capital limit of the company remains utilized at 61 percent during the last 6 months period ended March 2022. The Company maintains unencumbered cash and bank balances of Rs.1.73 Cr as on March 31, 2022. The current ratio of the PFMPL stand moderate at 1.19 times as on March 31, 2022. Acuite believes that the liquidity of the Company is likely to remain adequate over the medium term on account of adequate cash accrual and no major large debt capex plans over the medium term.

Outlook: Stable

Acuite believes that Company will continue to benefit over the medium term due to its experienced promoters, established relations with its customers and suppliers and efficient working capital management. The outlook may be revised to "Positive", if the company demonstrates substantial and sustained growth in its revenues and operating margins from

the current levels while improving its capital structure through equity infusion. Conversely, the outlook may be revised to "Negative", if company generates lower-than-anticipated cash accruals most likely as a result of sharp decline in operating margins, or further stretch in its working capital cycle, or larger-than expected debt-funded capex.

Other Factors affecting Rating

Not Applicable

Key Financials

Particulars	Unit	FY 22 (Provisional)	FY 21 (Actual)
Operating Income	Rs. Cr.	294.05	126.98
PAT	Rs. Cr.	10.59	2.66
PAT Margin	(%)	3.60	2.10
Total Debt/Tangible Net Worth	Times	2.32	1.60
PBDIT/Interest	Times	4.02	2.54

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

Not Applicable

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Manufacturing Entities: <https://www.acuite.in/view-rating-criteria-59.htm>
- Trading Entity: <https://www.acuite.in/view-rating-criteria-61.htm>
- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History:

Not Applicable

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
CSB Bank Limited	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	17.00	ACUITE A3 Assigned
CSB Bank Limited	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	30.00	ACUITE BBB- Stable Assigned
CSB Bank Limited	Not Applicable	Covid Emergency Line.	Not Applicable	Not Applicable	Not Applicable	4.83	ACUITE BBB- Stable Assigned
Standard Chartered Bank	Not Applicable	Overdraft	Not Applicable	Not Applicable	Not Applicable	40.00	ACUITE BBB- Stable Assigned

Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	2.77	ACUITE BBB- Stable Assigned
CSB Bank Limited	Not Applicable	Term Loan	Not available	Not available	Not available	9.40	ACUITE BBB- Stable Assigned

Contacts

Analytical	Rating Desk
Aditya Gupta Vice President-Rating Operations Tel: 022-49294041 aditya.gupta@acuite.in Bhavani sankar Oruganti Assistant Manager-Rating Operations Tel: 022-49294065 bhavanisankar.oruganti@acuite.in	Varsha Bist Senior Manager-Rating Operations Tel: 022-49294011 rating.desk@acuite.in

About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & 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. Acuité has assigned 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 Kanjurmarg, Mumbai.

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