



RATING RATIONALE

14 May 2020

Ali Afzal Flour Mill Limited

Brickwork Ratings upgrades/withdraws the ratings for the Bank Loan Facilities of ₹ 25.60 Crores of Ali Afzal Flour Mill Limited (AAFML or ‘the company’)

Particulars:

Facility**	Amount (₹ Cr)		Tenure	Rating*	
	Previous	Present		Previous (Feb, 2019)	Present
Fund based	16.45	25.60	Long Term	BWR BB- (Stable)	BWR BB (Stable) Upgrade
Non Fund based	(5.40)	-	Short Term	BWR A4	Withdrawn
Total	16.45	25.60	INR Twenty Five Crores And Sixty Lakhs Only		

*Please refer to BWR website www.brickworkratings.com/ for definition of the ratings

** Details of Bank facilities is provided in Annexure-I

RATING ACTION / OUTLOOK

BWR has upgraded the ratings of **Ali Afzal Flour Mill Limited** to BWR BB. The upgrade of rating reflects the long standing experience of the promoters in the agro based industry, company’s locational advantage with regards to abundant supply of wheat and good growth prospects in its revenue after capacity enhancement from 200 MT/day to 570 MT/day.

The rating is, however, constrained by the limited scale of operation, low net margins and existence of a large number of players in a highly competitive and fragmented market.

The ‘stable’ outlook indicates a low likelihood of a rating change in the medium term. BWR expects that the firm’s performance is likely to be maintained over the next few years.

KEY RATING DRIVERS

Credit Strengths:

- **Locational Advantage:** The company is located in Barabanki , UP and thus has a competitive advantage in terms of skilled labor, logistics, production knowledge and availability of wheat in abundance making the company more efficient and cost effective.
- **Networth:** Net worth of the company was Rs.5.98 Crores as on 31 March 2020 (Prov) which is supported by Unsecured loans of Rs.4.16 Crores from promoters and family and friends.

- **Debt Protection Metrics:** DSCR and ISCR of the company stand at 1.84x and 3.39x respectively in FY20 indicating company's ability to meet its debt obligations.
- **Company's Existence:** The company is in existence for 15 years and has seen complete business cycles. The promoters have extensive experience in the agro industry.
- **Growth of Revenue from Operations:** The company's revenue from operations has grown by almost 30% in the FY 20 and is projected to grow further in current fiscal after expansion of the installed capacity from 200 tonnes/day to 570 tonnes/day.
- **Moderate conversion cycle:** The company's conversion cycle was 30 days in FY 20 which signifies its good working capital management.

Credit risks:

- **Regulatory Risk:** The industry is regulated by the government. Any changes in existing regulatory framework/ environment may adversely affect the profitability of the company.
- **Competition in the Industry:** Entry barriers in the industry are low on account of limited capital and technology requirement and also low differentiation in the end product leading to intense competition and limiting the pricing power resulting in low profitability.
- **COVID-19 outbreak:** Due to outbreak of the pandemic coronavirus COVID-19 in March 2020 which has triggered a nationwide lockdown may disrupt the supply and demand in the short term. Although food items being an essential commodity, it is exempted from various restrictions during the lockdown period which in turn may not impact the company's business as much.

ANALYTICAL APPROACH AND APPLICABLE RATING CRITERIA

For arriving at its ratings, BWR has considered the standalone financials of the company. BWR has applied its rating methodology as detailed in the Rating Criteria (hyperlinks provided at the end of this rationale).

RATING SENSITIVITIES

Positive: Growth in sales and improvement in profitability and other financial risk parameters.

Negative: Any substantial fall in the company's revenue and delays in the loan repayments.

LIQUIDITY POSITION : Adequate

BWR believes that the company's liquidity is adequate which is marked by net cash accruals of Rs.1.40 Crores in FY20 (as per provisional financials). The cash accruals for FY19 were Rs.0.49 Crores and have increased in FY20 due to a growth of almost 30% in sales. The conversion cycle of the company is 30 days in FY20 which is marked by receivable days of 39 days and inventory holding of 9 day . The average bank limit utilization in the last 6 months has been around 30%-35% as analyzed from the bank account statements from October 2019 to March 2020. The company's liquidity is expected to be adequate in the short to medium term which is supported by the unutilized bank lines and unsecured loans from the promoters and their family

and friends.

COMPANY PROFILE

M/S Ali Afzal Flour Mill was formed as a partnership firm on 19 March 2005. W.e.f. 23 Aug 2016, the firm was registered as a limited company in the name of Ali Afzal Flour Mill Limited. The company undertook an expansion of its milling capacity in 2019 by 370 tonnes/day to reach the total capacity of 570 tonnes/day at its flour milling plant in Barabanki, UP. The plant is established in an area of 1.26 acres of land which is owned by one of the promoters. The company processes and sells these products: Aatta, Bran, Maida, Suji, Bardana etc.

KEY FINANCIAL INDICATORS (in ₹ Cr)

Key Parameters	Units	FY20	FY19
Result Type		Provisional	Audited
Operating Income	₹ Crores	52.26	40.61
EBITDA	₹ Crores	2.20	1.10
PAT	₹ Crores	0.44	0.35
Tangible Net worth (Analyzed)	₹ Crores	9.00	7.28
Total Debt / Tangible Net worth (Analyzed)	Times	1.91	0.41
TOL/TNW	Times	3.11	0.87
Current Ratio	Times	1.26	1.86

KEY COVENANTS OF THE INSTRUMENT/FACILITY RATED : NA

NON-COOPERATION WITH PREVIOUS RATING AGENCY IF ANY :

ACUITE B+ Issuer Not Cooperating via rationale dated 12 Sept 2019

RATING HISTORY

Instrument / Facilities	Current Rating (May 2020)			Rating History		
	Tenure (Long Term/ Short Term)	Amount (₹ Cr)	Rating	08 Feb 2019	2018	2017
Fund Based	Long Term	25.60	BWR BB (Stable) Upgrade	BWR BB- (Stable) Assigned	-	-
Non Fund Based	Short Term	-	Withdrawn	BWR A4 Assigned		
Total		25.60	INR Twenty Five Crores And Sixty Lakhs Only			

COMPLEXITY LEVELS OF THE INSTRUMENTS

For more information, visit www.brickworkratings.com/download/ComplexityLevels.pdf

Hyperlink/Reference to applicable Criteria

- [General Criteria](#)
- [Approach to Financial Ratios](#)
- [Rating Criteria for Manufacturing Companies](#)

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Ali Afzal Flour Mill Limited

ANNEXURE I

Details of Bank Facilities rated by BWR

Sl. No.	Name of the Bank	Type of Facilities	Long Term (₹ Cr)	Short Term (₹ Cr)	Total (₹ Cr)
1	Indian Bank	Cash Credit	15	-	15
2		Term Loan	10.60	-	10.60
TOTAL					25.60

Total Rupees Twenty Five Crores And Sixty Lakhs only.

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