Rating Rationale

Darjeeling Flour Mills Pvt Ltd

20 April 2018

Brickwork Ratings reaffirms the ratings for the Bank Loan Facilities of ₹. 19.20 Crores of Darjeeling Flour Mills Pvt Ltd.

Particulars

Facility	Amount (₹ Crs)		Tenure	Rating*	
	Previous (Mar'17)	Present (Apr' 18)		Previous (March, 2017)	Present (April 2018)
Fund based Cash Credit	**8.00**	**8.00**	**Long Term**	**BWR BB** (Pronounced BWR Double B) **Outlook: Stable**	**BWR BB-** (Pronounced BWR Double B Minus) **Outlook: Stable downgrade**
Non Fund Based Bank Guarantee	**11.20**	**11.20**	**Short Term**	**BWR A4** (Pronounced BWR A Four)	**BWR A4** (Pronounced BWR A Four) reaffirmed
Total	**19.20**	**19.20**	**INR Nineteen Crores Twenty Lacs Only**		

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

Rating: Downgrade of long term rating

Rating under Credit Watch with Positive / Negative / Developing implications

Rationale/Description of Key Rating Drivers/Rating sensitivities:

BWR has essentially relied on the audited financials upto FY17, financial performance as of December 31, 2017 and projections for the financial year of FY18 and FY19 of Darjeeling Flour Mills Pvt Ltd (**'**DFMPL' or 'the Company'), information /clarifications provided by the Company's management and publicly available information.

The rating factors in the promoters experience, favorable demand for its products, comfortable coverage metrics and maintained profitability margins upto FY17. However, the rating is constrained by increased competition in flour milling industry, apart from geographic concentration risk and dependence on agro-climatic risks. The rating downgrade necessarily factors in the company's performance as of December 31, 2017 wherein the revenues are at lower levels compared to FY17, and its ability to achieve the estimates for FY18 as well as maintain it at previous FY17 level remains a key rating sensitivity. Managing the increasing receivables through steady and consistent realisation shall assist in efficient working capital management. Going forward, the ability of the firm to improve on revenues, profitability margins and manage working capital requirements efficiently would be the key rating sensitivities.

The rating downgrade necessarily factors in the company's performance upto 9MFY18 in terms of revenues. The FY17 financial performance was maintained at FY16 levels, with improved operating profit margins. However for FY18, the Company has achieved revenues of Rs.24 Cr upto Dec 31, 2017, which remains a key concern, as it is challenging to maintain the performance achieved in FY17 or to meet its FY18 projections.

Description of Key Rating Drivers

Credit Strengths:

- **Experience of Promoters:** The promoters of the Company are in the wheat milling business for more than two decades.
- **Long Track Record:** The Company has an established track record of more than four decades in flour milling industry
- **Moderate Debt Protection Metrics:** The debt protection metrics of the Company reflected by ISCR and DSCR of 2.07 times and 1.87 times respectively.
- **Favorable Demand:** The demand prospects of the industry are expected to remain stable as wheat flour forms an important part of staple Indian diet.

Credit Risks:

- **Intense Competition from other Entities:** Flour milling industry is very competitive due to presence of many organized and unorganized players in the industry. Intense competition coupled with limited value addition restricts the pricing flexibility and margins.
- **Agro-Climatic Risk:** The Company is also highly susceptible to inherent agro-climatic risks of the industry. The availability of wheat in adverse weather condition and fluctuation in supply may expose the Company to price-volatility risk.
- **Scale of Operation:** The Company generated revenues of ₹ 43.64 Cr in FY17, and for current FY18 it is ₹ 24 Cr upto December 31, 2017
- **Geographical Concentration Risk:** The Company has geographic concentration risk as the milling unit is situated in the district of Siliguri, West Bengal.

Analytical Approach

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

Rating Outlook: *Stable*

BWR believes the **Darjeeling Flour Mills Pvt Ltd** business risk profile will be maintained over the medium term. The 'Stable' outlook indicates a low likelihood of rating change over the medium term. The rating outlook may be revised to 'Positive' in case the revenues and profit show sustained improvement. The rating outlook may be revised to 'Negative' if the revenues go down and profit margins show lower than expected figures.

About the Company

Darjeeling Flour Mills Pvt Ltd was established in the year 1973. The registered office of the Company is located at 20K, Ballygunj Terrace, Kolkata, West Bengal. The Company is engaged in the business of milling of wheat and its by-products. The Company has a flour mill with installed capacity of 150 MT per day. Its product segment consists of Wheat Flour, Maida and Suji. Mr Sukumar Ghosh, Mr Swadhin Ghosh and Mrs Mili Ghosh are the directors of the Company.

Since FY16, DFMPL has also started doing job-work for the State Civil Supplies Department. It gets the wheat from the Department, which it processes and returns the finished goods (atta, maida, etc), for which it gets a conversion fee. This has helped the Company to utilize its capacity better as also returns are assured at no additional cost.

Company Financial Performance

The Company's financial performance as of FY17 is maintained as in FY16, with revenues at Rs.43 Cr, net profit margin of 1%, networth of Rs.9 Cr and a comfortable gearing. The operating profit margins is also comfortable with marginal improvement from 3.39% in FY16 to 4.21% in FY17 For FY18, upto December 31, 2017 the Company has generated revenue of Rs.24 Cr. Maintaining the performance for FY18 in lines with its previous year as well as achieving as per its projections for FY18 remains challenging. The Bank has informed of the account being standard with satisfactory conduct.

Rating History for the last three years

S.No	Instrument /Facility	Current Rating (2018)			Rating History		
		Type	Amount (₹ Crs)	Rating	31-Mar-2017	2016	04-Dec-2015
1	**Fund Based** Cash Credit	Long Term	8.00	**BWR BB to BWR BB- (Outlook: Stable)**	**BWR BB**	**-**	**BWR BB**
3	**Non Fund Based** Bank Guarantee	Short Term	11.20	**BWR A4**	**BWR A4**	**-**	**BWR A4**
	Total		**19.20**	**₹ Nineteen Crores Twenty Lakh Only**			

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

Any other information

Key Financial Indicators

Key Parameters	Units	2016	2017
Result Type		**Audited**	**Audited**
Operating Revenue	₹ Cr	43.78	43.64
EBITDA	₹ Cr	1.48	1.84
PAT	₹ Cr	0.44	0.49
Tangible Net worth	₹ Cr	8.42	8.89
Total Debt/Tangible Net worth	Times	0.85	0.53
Current Ratio	Times	1.40	1.94

Bank Facilities
Annexure I

Nature of all facilities			
Bank Name	**Facilities**	**Sanctioned Limits (₹ Crs)**	**Amount Rated (₹ Crs)**
State Bank of India	Cash Credit	8.00	8.00
	Bank Guarantee	11.20	11.20
Total	**₹.19.20Crs (Rupees Nineteen Crores Twenty Lakh Only)**		

Hyperlink/Reference to applicable Criteria

- **General Criteria**
- **Approach to Financial Ratios**
- **Infrastructure Sector**
- **Short Term Debt**

For any other criteria obtain hyperlinks from website

Analytical Contacts	Media
Hemant Sagare *Senior Manager-Ratings* analyst@brickworkratings.com	media@brickworkratings.com
	Relationship Contact
	bd@brickworkratings.com
Phone: 1-860-425-2742	

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Note on complexity levels of the rated instrument:
BWR complexity levels are meant for educating investors. The BWR complexity levels are available at www.brickworkratings.com/download/ComplexityLevels.pdf Investors queries can be sent to info@brickworkratings.com.

About Brickwork Ratings

Brickwork Ratings (BWR), a SEBI registered Credit Rating Agency, has also been accredited by RBI and empaneled by NSIC, offers Bank Loan, NCD, Commercial Paper, MSME ratings and grading services. NABARD has empaneled Brickwork for MFI and NGO grading. BWR is accredited by IREDA & the Ministry of New and Renewable Energy (MNRE), Government of India. Brickwork Ratings has Canara Bank, a Nationalized Bank, as its promoter and strategic partner.

BWR has its corporate office in Bengaluru and a country-wide presence with its offices in Ahmedabad, Chandigarh, Chennai, Guwahati, Hyderabad, Kolkata, Mumbai and New Delhi along with representatives in 150+ locations. BWR has rated debt instruments/bonds/bank loans, securitized paper of over ₹ 10,00,000 Cr. In addition, BWR has rated over 6300 MSMEs. Also, Fixed Deposits and Commercial Papers etc. worth over ₹24,440 Cr have been rated.

DISCLAIMER

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