



RATING RATIONALE

20 Oct 2020

Megastar Foods Ltd.

Brickwork Ratings reaffirms the rating for the Bank Loan Facilities of ₹ 34.12 Crores of Megastar Foods Ltd.

Particulars:

Facility**	Amount (₹ Cr)		Tenure	Rating*	
	Previous	Present		Previous (Aug 2019)	Present
Fund Based	34.36	34.12	Long Term	BWR BBB-Stable (Assigned)	BWR BBB-Stable (Reaffirmed)
Non-fund Based	0.50	0.00	Short Term	BWR A3 (Assigned)	Withdrawn
Total	34.86	34.12	INR Thirty Four Crores and Twelve 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 : Stable

BWR has reaffirmed the long term rating at “BWR BBB-” with “Stable” outlook while withdrawing the short term rating for the bank loan facilities of Megastar Foods Ltd. The rating draws strength from the experienced promoters and modest financial risk profile. However, the rating is constrained on account of susceptibility to fluctuations in raw material prices and working capital intensive operations.

The rating outlook has been assigned as "Stable" as BWR believes that Megastar Foods Ltd.'s 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 there is improvement in revenues and profit margins. The rating outlook may be revised to 'Negative' if there is any deterioration in financial risk profile or liquidity issues.

KEY RATING DRIVERS

Credit Strengths:

- **Experienced promoters:** The promoters of the company have an extensive experience of over two decades in this line of business. The established track record of operations with growing efficiency and ability to operate through various economic cycles and changes in the industry is an outcome which is cushioned by experience of the promoters and top management.



- **Modest scale of operations:** The company reported sales of Rs 162.97 crs in FY 20 an increase from Rs 142.33 crs in FY 19. PAT for FY 20 was reported at Rs 3.40 crs vs Rs 2.43 crs in FY 19. TNW in FY 20 was Rs 22.11 crs (FY 19: Rs 18.71 crs) and the gearing for the year was 0.98x (FY 19: 157x). ISCR in FY 20 was 2.82x vs 2.40x in FY 19. DSCR in FY 20 was 1.58x vs 1.46x in FY 19.

Credit Challenges

- **Susceptibility to fluctuations in raw material prices:** Fluctuations in the prices of wheat and rice and its availability can affect the margins of the company. As a result, the company's operating margin remains low, at 2.90 to 5.90 per cent over the past three years. Nevertheless, the company has managed to maintain consistency in margins by following a prudent stocking policy through back-to-back arrangements for a portion of its sales and by leveraging its relationships with customers.
- **Working capital intensive operations:** The conversion cycle is high at 68 days in FY20, mainly due to higher inventory days of 38 days. Due to the seasonal availability of the raw material and its prices are affected by monsoon patterns and government policies. MFL's current ratio stands at 1.42 times in FY20.

ANALYTICAL APPROACH AND APPLICABLE RATING CRITERIA

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

RATING SENSITIVITIES

Going forward, the ability of the firm to improve its financial risk profile and maintaining adequate liquidity will remain the key rating sensitivities.

Positive: The rating may be upgraded if the company inter alia, is able to improve its topline, profit margin or on account of any other favourable factor.

Negative: The rating may be downgraded if inter alia, there is any deterioration in financial risk profile, fails to maintain adequate liquidity or on account of any unforeseen unfavourable events.

LIQUIDITY POSITION : Adequate

There is a subsidiary namely Megapacific ventures pvt Ltd, there is no business linkage with the entity.

The entity has no liquid investments, and cash balances in FY 20 (Audited) is Rs. 0.74 crs. The Cash Credit Utilization from Mar-20 to Aug-20 stands at 57.40%. Conversion Cycle is at 68 days in FY 20 (Audited), due to high inventory holding period. There is a Long term borrowings of Rs 4.94 crs includes vehicular loans from banks & NBFCs of Rs 1.17 crs and multiple business loans from HDFC bank of Rs 3.65 crs, these loans are commercial vehicle loans & LAP. The company has a DSCR of 1.58x & ISCR of 2.82x in FY20 (Audited). Current ratio of



the company stands at 1.42x in FY20 (Audited).

COMPANY PROFILE

Megastar Foods Limited (‘The company’ or ‘MFL’) was incorporated in 2011. The company’s main line of business is milling wheat to produce types of wheat flours, suji/rava and wheat bran. MFL’s plant is located at Chandigarh with an warehousing capacity of 15000 MT and manufacturing capacity of 9000 MT per month. MPL is mainly promoted by Mr. Vikas Goel and Mr. Vikas Gupta. The company was listed on Bombay Stock Exchange in FY19.

KEY FINANCIAL INDICATORS (in ₹ Cr)

Key Parameters	Units	FY 2020	FY 2019
Result Type		Audited	Audited
Operating Income	₹ Cr	162.97	142.33
EBITDA	₹ Cr	9.16	7.48
PAT	₹ Cr	3.40	2.43
Tangible Net Worth	₹ Cr	22.11	18.71
Total Debt/TNW	Times	0.98	1.57
Current Ratio	Time	1.42	1.49

KEY COVENANTS OF THE INSTRUMENT/FACILITY RATED: NA

NON-COOPERATION WITH PREVIOUS RATING AGENCY IF ANY : Nil

RATING HISTORY FOR THE PAST THREE YEARS [including withdrawal and suspended]

Facilities	Current Rating			Rating History		
	Tenure (Long Term/ Short Term)	Amount (₹ Cr)	Rating	2019	2018	2017
Fund Based	Long Term	34.12	BWR BBB-Stable (Reaffirmed)	BWR BBB-Stable (Assigned)	NA	NA
Non-fund Based	Short Term	0.00	Withdrawn	BWR A3 (Assigned)		
Total		34.12	INR Thirty Four Crores and Twelve Lakhs Only			

* Issuer did not cooperate, based on best available information.

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](#)
- [Services Sector](#)

Analytical Contacts	Investor and Media Relations
<p>Chaitanya Tambe Primary Analyst +91 22 2831 1426/6745 6666 Ext: 616 chaitanya.t@brickworkratings.com</p> <p>V K Kukreja Associate Director - Ratings B :+91 11 2341 2232 kukreja.vk@brickworkratings.com</p>	<p>Liena Thakur Assistant Vice President - Corporate Communications +91 84339 94686 liena.t@brickworkratings.com</p>

**Megastar Foods Ltd.
ANNEXURE I**

Details of Bank Facilities rated by BWR

Name of the Bank	Type of Facilities	Long Term (₹ Cr)	Short Term (₹ Cr)	Total (₹ Cr)
HDFC Bank	CC	33.00	-	33.00
	TL	1.12	--	1.12
TOTAL				34.12

INR Thirty Four Crores and Twelve Lakhs Only



For print and digital media The Rating Rationale is sent to you for the sole purpose of dissemination through your print, digital or electronic media. While it may be used by you acknowledging credit to BWR, please do not change the wordings in the rationale to avoid conveying a meaning different from what was intended by BWR. BWR alone has the sole right of sharing (both direct and indirect) its rationales for consideration or otherwise through any print or electronic or digital media.

About Brickwork Ratings : Brickwork Ratings (BWR), a Securities and Exchange Board of India [SEBI] registered Credit Rating Agency and accredited by Reserve Bank of India [RBI], offers credit ratings of Bank Loan, Non- convertible / convertible / partially convertible debentures and other capital market instruments and bonds, Commercial Paper, perpetual bonds, asset-backed and mortgage-backed securities, partial guarantees and other structured / credit enhanced debt instruments, Security Receipts, Securitisation Products, Municipal Bonds, etc. BWR has rated over 11,400 medium and large corporates and financial institutions' instruments. BWR has also rated NGOs, Educational Institutions, Hospitals, Real Estate Developers, Urban Local Bodies and Municipal Corporations. BWR has Canara Bank, a leading public sector bank, as one of the promoters and strategic partners. BWR has its corporate office in Bengaluru and a country-wide presence with its offices in Ahmedabad, Chandigarh, Chennai, Hyderabad, Kolkata, Mumbai and New Delhi along with representatives in 150+ locations.

DISCLAIMER Brickwork Ratings (BWR) has assigned the rating based on the information obtained from the issuer and other reliable sources, which are deemed to be accurate. BWR has taken considerable steps to avoid any data distortion; however, it does not examine the precision or completeness of the information obtained. And hence, the information in this report is presented "as is" without any express or implied warranty of any kind. BWR does not make any representation in respect to the truth or accuracy of any such information. The rating assigned by BWR should be treated as an opinion rather than a recommendation to buy, sell or hold the rated instrument and BWR shall not be liable for any losses incurred by users from any use of this report or its contents. BWR has the right to change, suspend or withdraw the ratings at any time for any reasons.