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Risk vs. Opportunity: Credit Evaluation of JP Flour Mills

As the morning sun filtered through the blinds of his office, Adesh Jain, a seasoned credit officer at Eastern Commerce Bank (ECB), reviewed the latest proposal that had landed on his desk. JP Flour Mills Pvt. Ltd., a long-standing client of the bank, had approached the Silchar Branch for an enhancement of its working capital limit from ₹900 lakhs to ₹1500 lakhs. The company, a well-established flour milling business in Assam, cited rising wheat prices and increased production costs as the primary reasons for the request. Adesh knew that his task was not just to evaluate the financial viability of the proposal but also to assess the company's creditworthiness, analyse its working capital needs, and scrutinize the security coverage for the proposed enhancement. The management at the branch and zonal office were hopeful for a positive recommendation, as the loan, if sanctioned, would contribute significantly to the bank's MSME and priority sector lending targets. However, for Adesh, the decision could not be based on targets alone—he needed to conduct a thorough credit analysis, weigh the risks, and ensure that the bank's exposure remained secure before making his recommendation.

Industry Overview

The flour milling industry had long been an essential part of India's food processing sector, playing a crucial role in food security, employment generation, and rural development. It comprised both large industrial mills and small-scale enterprises that coexisted in a fragmented market. While modern flour mills adopted automated processing technologies to improve efficiency, many small and medium-sized mills still operated with traditional methods, limiting their productivity and competitiveness.

Demand for wheat-based products had been on the rise, driven by urbanization, changing dietary habits, and increasing consumption of packaged flour. As a result, the industry had been growing steadily at an annual rate of 7.39%. However, the business environment remained challenging due to the volatility in wheat prices, government procurement policies, and dependence on international market trends. Wheat, being the primary raw material, was

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highly susceptible to price fluctuations, and any changes in government regulations regarding minimum support prices (MSP) or import duties directly impacted production costs.

The industry's profitability had always been constrained by thin margins. Price competition among milling businesses was intense, particularly in regions with a high concentration of small, unorganized players. While large flour mills benefited from economies of scale and modern machinery, smaller mills often struggled with cost efficiency and inconsistent product quality. Additionally, regulatory oversight in the form of taxation, food safety laws, and government-controlled wheat procurement added another layer of complexity.

In North-East India, the flour milling sector operated under unique conditions. Unlike other parts of the country, this region had relatively fewer large-scale mills, making it dependent on wheat imports from the major producing states of Punjab, Haryana, and Uttar Pradesh. The supply chain was inherently complex due to the region's hilly terrain, poor road connectivity, and reliance on railway transportation. These logistical challenges resulted in longer procurement cycles, higher transportation costs, and increased price volatility for raw materials.

Despite these challenges, the North-Eastern states had seen a shift in consumer preferences, with an increasing demand for branded and packaged flour products. Traditionally, loose and locally milled flour dominated the market, but changing urban lifestyles had contributed to a growing preference for standardized, quality-assured flour. This shift created opportunities for well-established mills that could ensure consistency in supply and maintain product quality.

JP Flour Mills operated in Barak Valley, Assam, a region with a relatively high demand for wheat-based products. The company had an advantageous position due to the limited number of large competitors in the area. However, it faced competition from unorganized players who engaged in price undercutting, a practice that squeezed profit margins for established businesses. The company also had to contend with high procurement and transportation costs, making supply chain efficiency a critical determinant of its profitability.

While government incentives under schemes such as the North East Industrial Development Scheme (NEIDS) provided some support, mills in the region still faced inherent structural challenges. Power supply inconsistencies, limited cold storage infrastructure, and exposure to climatic risks, such as floods and landslides, further complicated operations. For companies like JP Flour Mills, maintaining operational efficiency while mitigating these risks remained an ongoing challenge.

Company Background and Business Operations

Evolution and Growth: JP Flour Mills had its beginnings in 1965 as a partnership firm in Silchar, Assam. Initially operating with a modest installed capacity of 30,000 TPA (tonnes per annum), the company steadily expanded its operations. Over time, an additional milling unit was established within the same premises, increasing the total installed capacity to 54,000 TPA. Recognizing the need for a structured corporate entity, the firm transitioned into a private limited company in 1986, inheriting all the assets, liabilities, and operations of its predecessor.

With decades of experience, JP Flour Mills built a reputation as one of the leading flour producers in North-East India, serving customers across Assam, Meghalaya, Tripura, Manipur, and Mizoram. The company continuously upgraded its infrastructure to meet evolving industry standards and consumer expectations.

Product Portfolio: JP Flour Mills specialized in the production of various wheat-based products, catering to a broad range of customers:

- **Maida (Refined Wheat Flour)** – A key ingredient in bakery products such as bread, biscuits, and cakes.
- **Atta (Whole Wheat Flour)** – Widely consumed for making staple food items like rotis and parathas.
- **Suji (Semolina)** – Used in the preparation of Indian sweets, pasta, and breakfast dishes.
- **Bran** – A by-product of the milling process, primarily sold to cattle and poultry feed manufacturers.

The company primarily sold its products in bulk, packaging them in 50 kg bags for Maida, Atta, and Suji, while Bran was sold in 35-40 kg bags.

Manufacturing and Infrastructure: The company's production facility in Silchar featured modernized machinery, including a fully mechanized Bühler milling plant, which ensured high operational efficiency and product quality. To maintain its competitive edge, JP Flour Mills incorporated:

- A dedicated quality testing laboratory for consistent product standards.
- An in-house workshop equipped with German-imported grooving machines for maintenance.
- Storage facilities designed to accommodate wheat inventory and finished products.
- A computerized weighbridge system for precise stock management and logistics.

The production process was largely automated, ensuring minimal manual intervention, which not only improved hygiene standards but also optimized operational efficiency.

Market Presence and Distribution Network: JP Flour Mills operated through a well-established wholesale distribution network. Its key clientele included:

- Local bakeries and large brands such as Pizza Hut.
- Hotels, restaurants, and food manufacturers.
- Wholesale dealers and traders who further distributed the products to smaller retail markets.
- Cattle and poultry feed manufacturers purchasing bran as a raw material.

To support its distribution efforts, the company owned a fleet of six trucks that facilitated product transportation across the North-Eastern states. However, due to the scale of its operations, JP Flour Mills also relied on railway transport for sourcing wheat from mainland India, primarily from Punjab, Haryana, and Uttar Pradesh. The dependence on railway transportation, though cost-effective, often led to logistical challenges, including delays, demurrage charges, and unpredictable transit times.

Challenges and Expansion Plans: While JP Flour Mills had cemented its position as a key player in the regional flour market, it faced several ongoing challenges:

- **Dependence on External Wheat Supply** – Since Assam did not produce enough wheat, the company relied entirely on procurement from other states, exposing it to price fluctuations and transportation costs.
- **Competition from Unorganized Players** – The presence of smaller, unregistered mills posed pricing challenges, as these mills often operated with lower regulatory compliance and minimal overhead costs.
- **Expansion Delays** – The company had secured a ₹300 lakh term loan for the purchase of new plant and machinery to expand its production capacity from 150 TPD to 200 TPD. However, delays in the import of machinery had stalled project completion, pushing the estimated operational start date by an additional three months.

Despite these challenges, JP Flour Mills aimed to strengthen its financial position by increasing its capacity, expanding its reach in the packaged flour segment, and streamlining supply chain operations. However, much depended on the company's ability to navigate the risks associated with procurement, pricing, and operational scalability.

Management Profile

The leadership of JP Flour Mills was deeply rooted in family ownership, with three key figures overseeing its operations.

Shri Hanumant Deora, Managing Director, had been the guiding force behind the company's growth. With over five decades of experience in the flour milling industry, he had witnessed the transformation of traditional mills into mechanized units. His deep industry knowledge,

strong relationships with suppliers, and ability to navigate regulatory challenges had enabled JP Flour Mills to establish itself as a market leader in the North-East. Even in his later years, he remained actively involved in strategic decision-making, particularly in areas of sourcing, procurement, and financial planning.

Anubhav Deora, Executive Director and CEO, represented the new generation of leadership. Holding a B.Tech in Computer Science from PES University in Bangalore, Anubhav had brought a fresh perspective to the business. Unlike his father, who relied on experience and intuition, Anubhav was data-driven and focused on efficiency. Under his leadership, the company had modernized its production processes, implemented real-time inventory tracking, and explored branding opportunities for packaged flour products. His vision was to expand beyond the North-East and position JP Flour Mills as a technologically advanced and environmentally sustainable enterprise.

Smt. Amrita Deora, Executive Director, played a crucial role in governance and organizational management. With a Master's degree in Economics, she oversaw business administration, workplace ethics, and regulatory compliance. She had spearheaded sustainability initiatives, including waste management programmes and the development of green spaces around the factory. Her efforts ensured that JP Flour Mills adhered to environmental regulations and upheld corporate responsibility standards.

The Deora family's combined net worth stood at ₹3192.00 lakhs, reflecting their strong financial standing. The promoters had maintained high credit scores, with no major financial irregularities except for a minor past-due incident that had been resolved in 2021. While the company had a strong leadership team, decision-making remained centralized within the family, raising considerations about the need for external professional management as the business continued to expand.

Financial Profile

Revenue and Profitability Trends: JP Flour Mills had shown consistent revenue growth over the years. Its gross sales increased from ₹8429.81 lakhs in FY 2020-21 to an estimated ₹12,576.73 lakhs in FY 2023-24, with projections suggesting a rise to ₹14556.67 lakhs and to ₹16,039.62 lakhs by FY 2025-26. However, despite this growth, the company's profitability margins remained thin, a characteristic common in the flour milling industry.

The company's operating profit had steadily increased, reflecting a rise from ₹67.40 lakhs in FY 2020-21 to ₹101.57 lakhs in FY 2022-23, with expectations to reach ₹139.03 lakhs in 2024-25 and further to ₹195.02 lakhs by FY 2025-26. Similarly, profit before tax (PBT) fluctuated slightly but showed an upward trend, with ₹152.96 lakhs in FY 2020-21 and a projection of ₹225.02 lakhs in FY 2025-26. However, the operating profit margin remained low, reaching only 1.22% in 2025-26.

Debt Structure: JP Flour Mills had an existing fund-based working capital limit of ₹900 lakhs, alongside a term loan of ₹300 lakhs taken during 2023-24 for its modernization and expansion plans. The outstanding balance on the term loan stood at ₹296.25 lakhs. The company sought an enhancement of its working capital limit to ₹1500 lakhs to accommodate rising input costs and increased working capital needs.

While JP Flour Mills maintained a stable banking relationship, its increasing debt levels and reliance on external financing raised concerns about future liquidity management. The company's ability to service its obligations depended on sustaining revenue growth and improving profitability margins over the coming years.

The company's financial statements were as in Exhibits 1 and 2.

Need for Enhanced Working Capital

JP Flour Mills required an enhancement in its working capital loan primarily due to rising input costs and an increase in its operational scale. Several factors contributed to this growing requirement:

- **Rising Wheat Prices:** Over the past two years, the price of wheat had increased significantly, rising from ₹2004 per quintal in FY 2021-22 to ₹2498 per quintal in FY 2022-23. Since wheat was the primary raw material, this increase directly impacted the company's procurement costs and working capital needs. Besides, its suppliers do not offer credit.
- **Higher Inventory Levels:** The company maintained a minimum buffer stock of two months' worth of raw material to mitigate supply chain disruptions. Given the rising wheat prices, maintaining this stock required more capital.
- **Delayed Expansion Project:** JP Flour Mills had secured a ₹300 lakh term loan to increase its production capacity from 150 TPD to 200 TPD. However, delays in machinery installation meant that additional funds were tied up in non-operational assets, increasing the pressure on working capital.
- **Transportation and Logistics Costs:** Due to the company's reliance on wheat imports from other states, rising freight charges and railway demurrage fees had further increased its cash flow needs.
- **Extending Credit to Customers:** To remain competitive, the company had been extending credit periods to key buyers such as bakeries, hotels, and wholesalers. This practice increased receivables, further straining its liquidity position.

Given these factors, the existing working capital limit of ₹900 lakhs was proving insufficient to support daily operations. The requested enhancement to ₹1500 lakhs would help JP Flour Mills sustain its procurement cycle, manage production costs effectively, and ensure uninterrupted supply to its customers.

Banking Relationship and Credit History

JP Flour Mills had maintained a long-term and stable banking relationship with ECB since 1998. Over the years, the company had availed various credit facilities, including a fund-based working capital limit of ₹900 lakhs and a term loan of ₹300 lakhs for modernization. The company had demonstrated financial discipline, with no major defaults or delays in repayment history.

CIBIL Scores and Creditworthiness

The company and its promoters maintained high credit scores, reinforcing their financial reliability:

- **JP Flour Mills Pvt. Ltd.** – CMR Rank 3 (Commercial CIBIL), Score: 793
- **Shri Hanumant Deora (Managing Director)** – 765 (CIBIL), 723 (Experian)
- **Anubhav Deora (CEO)** – 748 (CIBIL), 719 (Experian)
- **Smt. Amrita Deora (Executive Director)** – 758 (CIBIL), 769 (Experian)

While there was a minor past-due incident on a previous loan, the amount was fully settled in 2021, with no recurring issues since.

Legal Cases and Compliance Risks

As of May 2023, JP Flour Mills had 13 recorded legal cases, of which 11 had been resolved. The two pending cases pertained to railway demurrage charges imposed by N.F. Railway. These penalties were a common occurrence for businesses reliant on large-scale raw material transportation. The company had appealed for waivers, and past cases had been successfully resolved through negotiations.

Additionally, the company had faced stock exchange listing compliance issues. Although it was previously listed on BSE and the Calcutta Stock Exchange, trading was suspended in 2002 due to non-compliance with certain listing regulations. The company had since applied for delisting and had made significant progress toward resolving its regulatory obligations.

Security Coverage

JP Flour Mills had provided both primary and collateral security against its borrowing facilities:

- **Primary Security:** Hypothecation of current assets, including inventory valued at ₹1588 lakhs and book debts of ₹724.14 lakhs.
- **Collateral Security:** Land and building at its Meherpur Unit, Silchar, valued at ₹1307.80 lakhs.

The company had offered additional land in Udalguri, valued at ₹290 lakhs, as security. However, due to its classification under the Sixth Schedule (Boro Land), it was not SARFAESI-compliant, raising concerns about its enforceability in case of default.

Adesh's Dilemma

As Adesh gathered all the necessary details, he understood the significance of this proposal for both JP Flour Mills Pvt. Ltd. and ECB's Silchar Branch. The branch was keen on a positive recommendation, as it would help in achieving its priority sector lending and MSME growth targets. However, sanctioning an enhanced working capital limit required a thorough assessment of the risks and justifications.

Before making his recommendation, Adesh needed to evaluate the company's cash flow projections and working capital cycle, assess the adequacy of security coverage, examine the impact of the delayed expansion project, analyse credit reports and legal history, and consider alternative risk mitigation measures. Having gathered all relevant data, he wanted to do the risk rating of the company using the bank's internal rating model (MS Excel) before giving his recommendation.

Exhibit 1
Balance Sheet of JP Flour Mills

	<i>Audited</i>	<i>Audited</i>	<i>Provisional</i>	<i>Estimated</i>	<i>Projected</i>	<i>Projected</i>
	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
Liabilities						
Short Term Bank Finance (A)	167.07	538.89	900	732.41	1500	1500
Other Current Liabilities (B)	142.48	230.62	127.66	169.76	155.43	139.09
i. Sundry Creditors	84.29	120.62	49.5	4.99	0	0
ii. Advance Payments Received	0	0	0	0	0	0
iii. TL Inst Repayable in 12 Months	25.21	26.07	77.66	80.58	95.43	74.59
iv. Provisions & Other CL	32.98	83.93	0.5	84.19	60	64.5
Total Current Liabilities (C=A+B)	309.55	769.51	1027.66	902.17	1655.43	1639.09
v. Term Loans - (>12 months)	56.25	91.59	379.9	310.55	297.96	223.37
vi. Term Loans - (>12 months Others)	0	0	0	0	0	0
vii. Debentures, Redeemable Pref. Shares (<12 Years, FCCB etc)	0	0	0	0	0	0
viii. Unsecured Loans	0	0	0	0	0	0
ix. Other Term Liabilities	0	18.6	0	18.24	0	0
x. DTL	93.86	97.67	0	62.85	97.67	97.67
Total Term Liabilities (D)	150.11	207.86	379.9	391.64	395.63	321.04
Total Outside Liabilities (E)	459.66	977.37	1407.56	1293.81	2051.06	1960.13
xi. Paid Up Capital (Including Premium)	756.97	756.97	756.97	756.97	756.97	756.97
xii. Reserve & Surplus	1086.24	1197.65	1268.52	1322.82	1496.87	1721.89
xiii. Share Application Money	0	0	0	0	0	0
Net Worth (F)	1843.21	1954.62	2025.49	2079.79	2253.84	2478.86
Total Liabilities (G) = (E + F)	2302.87	2931.99	3433.05	3373.6	4304.9	4438.99

Note: All figures are in INR Lakhs.

Exhibit 1
Balance Sheet of JP Flour Mills (contd.)

	<i>Audited</i>	<i>Audited</i>	<i>Provisional</i>	<i>Estimated</i>	<i>Projected</i>	<i>Projected</i>
	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
Assets						
a. Cash & Bank Balances	46.49	40.56	112.45	36.22	33.31	34.67
b. LC/BG Margins, Fixed Deposits & Liquid Assets	0	0	0	0	0	0
c. Receivables (< 6 Months)	189.62	349.16	450	338.02	724.14	638.40
d. Investments (Other than Long Term)	0	0	0	0	0	0
e. Total Inventory	778.53	971.19	889.86	1239.52	1588.00	1882.00
f. (i) Other Current Assets - Dues from Associates/Subsidiaries	0	0	0	0	0	0
(ii). Other Current Assets - Others	146.31	225.69	325	110.1	220	220
Total Current Assets (A)	1160.95	1586.6	1777.31	1723.86	2565.45	2775.07
Gross Block	444.24	516.04	1050.83	879.27	900.27	900.27
Less: Cumulative Depreciation	118.74	144.15	212.8	168.12	210.15	258.15
Net Block (Excl. Rev Reserve + CWIP) (B)	325.5	371.89	838.03	711.15	690.12	642.12
Investment in Associates, Subsidiaries, Sister Concerns, etc.)	737.69	770.14	770.14	801.75	832	860
Other Investments	12.1	133.71	47.57	105.04	185.53	130
Receivables (>6 Months)	38.5	40.71	0	0	0	0
Others	28.13	28.94	0	31.8	31.8	31.8
Long Term Loans & Advances						
Non-Current Assets (C)	816.42	973.5	817.71	938.59	1049.33	1021.8
Total Tangible Assets (D)	2302.87	2931.99	3433.05	3373.6	4304.9	4438.99
Intangible Assets, Including DTA (E)	0	0	0	0	0	0
Total Assets (D+E)	2302.87	2931.99	3433.05	3373.6	4304.9	4438.99

Note: All figures are in INR Lakhs.

Exhibit 2
Profit and Loss Statement of JP Flour Mills

		<i>Audited</i>	<i>Audited</i>	<i>Provisional</i>	<i>Estimated</i>	<i>Projected</i>	<i>Projected</i>
		2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
P1	Manufacturing Sales (Domestic)	8429.81	8740.53	11003.58	12576.73	14556.67	16039.62
P2	Trading Sales (Domestic)						
P2A	Export Sales (Mfg. Sales + Trading Sales)						
P3	Total Sales (P1 + P2 + P2.A)	8429.81	8740.53	11003.58	12576.73	14556.67	16039.62
P4	Deduction for Shortage + Ineligible Sales under GST						
P5	Net Sales (P3 -P4)	8429.81	8740.53	11003.58	12576.73	14556.67	16039.62
P6	Other Income (Operational)				18.78	20	20
P7	Total Income (P5 + P6)	8429.81	8740.53	11003.58	12595.51	14576.67	16059.62
P8	Raw Materials Consumed	7535.28	7765.82	9860.5	11456.31	13185.97	14536.48
P9	Consumable Stores including Packing Materials	143.98	191.69	201	162.14	174	179.5
P10	Power & Fuel	224.49	241.05	250	269.27	285	295
P11	Wage and Salaries	173.88	187.75	56	63.87	75	80
P12	Other Manufacturing Exp	14.98	79.78	8.5	90.01	97	103
P13	Cost of Production (Total of P8 to P12)	8092.61	8466.09	10376	12041.6	13816.97	15193.98
P14	Purchases of Goods for Resale (For Traders Only)						
P14A	Other Direct Expenses (For Traders Only)						
P14B	Opening Work-in-progress	52.66	62.08	79.59	79.6	103.65	120
P14C	Closing Work-in-progress	62.08	79.6	84.18	103.65	120	125
P15	Decrease / (Increase) in Finished Goods (FG)	-9.42	-17.52	-4.59	-24.05	-16.35	-5

Risk vs. Opportunity: Credit Evaluation of JP Flour Mills

		<i>Audited</i>	<i>Audited</i>	<i>Provisional</i>	<i>Estimated</i>	<i>Projected</i>	<i>Projected</i>
		2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
P16	Cost of Goods Sold (P13 + P14 + P14A+P15)	8083.19	8448.57	10371.41	12017.55	13800.62	15188.98
P17	Admin & Selling Expenses	215.9	142.32	373.5	382.86	413.35	435
P18	Advertising, Research & Development and Promotional Expenses						
P19	Commission & Other Selling Expenses						
P20	Other Expenses (Operational) (BG Commission)						
P21	Operating Cost (Total of P16 to P20)	8299.09	8590.89	10744.91	12400.41	14213.97	15623.98
P22	Operating Profit/(Loss) before Interest, Lease Rentals, Depreciation & Amortization (P7 - P21)	130.72	149.64	258.67	195.1	362.7	435.64
P23	Interest on Long Term Debts	7.7	6.8	23.96	23.05	42.91	35.12
P23A	Interest on Short Term Debts	33.82	44.88	75	50.84	138.76	157.5
P23B	Other Interest Cost						
	TOTAL INTEREST (P23 TO P23.B)	41.52	51.68	98.96	73.89	181.67	192.62
P23C	Financial Expenses						
P23D	Amortization						
P24	Lease Rentals						
P25	Depreciation	21.8	25.04	68.65	23.61	42	48
P26	Misc. Expenditure Written Off during the Year						
P27	Operating Profit/(Loss) P22 - (P23 to P26)	67.4	72.92	91.06	97.6	139.03	195.02
P28	Other Income (Non-Operational)	85.56	67.87		37.71	35	30
P28A	Other Expenses (Non-Operational)						
P29	Extra Ordinary Income (Profit on Sale of Assets/ Investments, Provisions						

Risk vs. Opportunity: Credit Evaluation of JP Flour Mills

		<i>Audited</i>	<i>Audited</i>	<i>Provisional</i>	<i>Estimated</i>	<i>Projected</i>	<i>Projected</i>
		2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
	Written Back, etc.)						
P29A	Extra Ordinary Expenses (Loss on Sale of Assets/Investments, etc.)						
P30	Profit Before Tax/(Loss) (PBT) (P27 + P28 + P29 - P28.A - P29.A)	152.96	140.79	91.06	135.31	174.03	225.02
P31	Provision for Tax	36.67	29.38	20.19	-4.04	45	58
P32	Profit after Tax (PAT) (P30 - P31)	116.29	111.41	70.87	139.35	129.03	167.02
P33	EBDTA (P30 + P25 + P29.A- P29)	174.76	165.83	159.71	158.92	216.03	273.02

Note: All figures are in INR Lakhs