

December 09, 2014

Facilities	Amount (Rs. Crore)	Ratings
Term Loan	11.31	SMERA B+/Stable (Assigned)
Cash Credit	5.00	SMERA B+/Stable (Assigned)
Packing Credit	45.00	SMERA A4 (Assigned)
Bank Guarantee	0.50	SMERA A4 (Assigned)
Proposed fund-based facility	8.19	SMERA A4 (Assigned)

SMERA has assigned a rating of '**SMERA B+**' (read as SMERA single B plus) to Rs.16.31 crore long-term bank facilities and '**SMERA A4**' (read as SMERA A four) to Rs.53.69 crore short-term bank facilities of M.D. Frozen Food Exports (MDFE). The outlook is '**Stable**'. For arriving at the ratings, SMERA has combined the business and financial risk profiles of MDFE and M.D. Frozen Food Exports Private Limited (MDPL), together referred to as the MD Group. The consolidation is in view of the strong operational and financial linkages between the entities. The consolidation also factors in the similar business models and common management of the entities. The ratings are supported by the group's long track record of operations, experienced management and established relations with customers. However, the ratings are constrained by the group's modest scale-operations, high gearing and working capital-intensive business. The ratings are also constrained by the group's exposure to geographic concentration risk amidst intense competition in the meat processing industry. The ratings note that the group's financial profile is susceptible to fluctuations in foreign exchange rates and adverse changes in the dynamics of the meat processing industry. The ratings also factor in the risks associated with the debt-funded capex undertaken by the group.

MDFE (established in 1992) is a part of the Delhi-based MD Group promoted by Mr. Mohd. Saleem and Mr. Nawabuddin. MD Group undertakes processing, trading and export of boneless frozen buffalo meat. The promoters of the group have long-standing experience of around three decades in the meat processing industry. The group benefits from its established relations with customers based in Africa, Asia and Middle East.

MD Group has modest-scale operations marked by revenues of Rs.252.81 crore in FY2013-14 (refers to financial year, April 01 to March 31). The group registered revenues of Rs.121.48 crore during April 2014 to September 2014. MD Group's debt-equity ratio is high at 2.70 times as on March 31, 2014. The group's working capital cycle is stretched at 139 days on account of high inventory levels (of frozen meat) of 134 days in FY2013-14. MD Group's utilisation of working capital limit is high at 95 per cent during March 2014 to September 2014.

MD Group is exposed to geographic concentration risk arising from high dependence on orders received from customers in Vietnam and China. The group faces intense competition from several players in the meat processing industry. MD Group's profit margins are exposed to fluctuations in

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forex rates. The group's financial profile is susceptible to the risks of cattle disease outbreaks, unfavourable changes in trade regulations and other adverse changes in the dynamics of the meat processing industry.

MD Group is undertaking capex of Rs.18.00 crore to set up an integrated slaughter house. The project cost is funded through term loans of Rs.10.00 crore and promoters' funds of Rs.8.00 crore. The project is likely to be commissioned by December 2014. Timely commissioning of the project is a key rating sensitivity.

Outlook: Stable

SMERA believes MD Group will maintain a stable business risk profile over the medium term. The group will continue to benefit from its experienced management. The outlook may be revised to 'Positive' in case the group registers substantial growth in revenues and cash accruals while achieving significant improvement in working capital management. The outlook will be revised to 'Negative' in case of deterioration in the group's financial risk profile or working capital management.

About the group

MD Group comprises two entities viz. M.D. Frozen Food Exports (established in 1992) and M.D. Frozen Food Exports Private Limited (established in 1996). The group undertakes processing, trading and export of boneless buffalo meat. Currently, MD Group procures raw meat from a slaughter house (approved by Agricultural and Processed Food Products Export Development Authority) owned by Meem Agro Foods Private Limited.

For FY2013-14, MD Group reported profit after tax (PAT) of Rs.8.31 crore on operating income of Rs.252.81 crore, as compared with PAT of Rs.5.58 crore on operating income of Rs.156.30 crore in FY2012-13. The group's net worth stood at Rs.37.85 crore as on March 31, 2014, as compared with Rs.36.28 crore a year earlier.

About the firm

MDFE, established in 1992, is a Delhi-based partnership firm engaged in processing and export of frozen buffalo meat. MDFE caters to customers based in Africa, Asia and Middle East. The firm's processing unit in Dasna (Ghaziabad, Uttar Pradesh) has installed capacity of 116 metric tonnes per day. MDFE also has a rendering unit (with installed capacity of 110 metric tonnes per day) which converts waste from meat processing activity into useful by-products such as tallow oil (sold to soap manufacturers) and poultry feed.

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