

October 16, 2015

Facilities	Amount (Rs. Crore)	Rating
Cash Credit	50.00	SMERA BBB/Stable (downgraded from SMERA BBB+/Stable)
Term Loan	19.00	SMERA BBB/Stable (downgraded from SMERA BBB+/Stable)

SMERA has downgraded the long-term rating on the Rs.69.00 crore bank facilities of Supple Tek Industries Private Limited (STIPL) to '**SMERA BBB**' (read as **SMERA triple B**) from '**SMERA BBB+**' (read as **SMERA triple B plus**). The outlook is '**Stable**'.

SMERA has consolidated the business and financial risk profiles of KS Agro Exports and STIPL since the business of KS Agro Exports was transferred to STIPL on October-2014.

The downgrade reflects the decline in the group's revenues by ~50 per cent due to the longer than expected ban on import of basmati rice by Iran. The downgrade also factors in the uncertainty over the continuance of barter trade mechanism between India and Iran, in light of the anticipated easing of sanctions imposed on Iran by US and Europe.

The rating continues to derive support from the company's experienced management, moderate financial risk profile and gradually reducing dependence on the Iran export market. However, the rating continues to remain constrained by the company's low net profit margin in an intensely competitive segment of the agro-commodities industry.

Update

The group's revenues have declined from Rs.4,182.74 crore in FY2013-14 to Rs.2,085.33 crore in FY2014-15 primarily on account of longer than expected ban on import of basmati rice by Iran. Further, the above mentioned uncertainty over the continuance of the barter trade mechanism between India and Iran also has a bearing.

STIPL continues to benefit from its experienced management. Mr. Kawaljit Singh and Mr. Ramneek Singh, Directors possess around three decades of experience in the agro-commodities industry.

The group's moderate financial risk profile is marked by gearing (debt-equity ratio) of 1.46 times as on March 31, 2015 and interest coverage of 5.29 times in FY2014-15 (refers to financial year, April 01 to March 31). The financial risk profile is further supported by private equity infusion of around Rs.60 crore expected to be entirely received by March 31, 2016.

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Supple Tek Industries Private Limited (STIPL)

Rating
Rationale

The company has subordinated unsecured loans (including compulsory convertible debentures) of Rs.63.80 crore from related parties. SMERA has treated such unsecured loans (including CCD) as quasi-equity.

The group has reduced its dependence on the Iran export market. In FY2014-15, the group has made around 40 per cent of its total sales to countries other than Iran.

Outlook: Stable

SMERA believes STIPL will maintain a stable business risk profile over the medium term. The company will continue to benefit from its experienced management and established relations with customers. The outlook may be revised to 'Positive' in case the company registers strong growth in revenues and cash accruals while maintaining a comfortable liquidity position. Conversely, the outlook may be revised to 'Negative' in case of further decline in the company's revenues and cash accruals, or in case of deterioration in the company's financial risk profile and liquidity position.

About the Company

STIPL, incorporated in 2014, is an Amritsar-based company promoted by Mr. Kawaljit Singh Arora and Mr. Ramneek Singh. The company undertakes trading of rice and other agricultural commodities such as sugar, flour and soya bean. The company also undertakes milling of basmati rice. STIPL commenced commercial operations on October 02, 2014.

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