

May 19, 2016

| Facilities | Amount (Rs. Crore) | Ratings |
|------------------------|-----------------------|------------------------------|
| Cash Credit | 1.50 | SMERA B-/Stable (Reaffirmed) |
| Cash Credit (Proposed) | 1.50 | SMERA B-/Stable (Reaffirmed) |
| Letter of Credit | 7.50 | SMERA A4 (Reaffirmed) |

SMERA has reaffirmed the long term rating of '**SMERA B-**' (read as **SMERA B minus**) and short term rating of '**SMERA A4**' (read as **SMERA A four**) on the Rs.10.50 crore bank facilities of Agroflex Reinforce Inc (ARI). The outlook is '**Stable**'. The ratings continue to remain constrained by the small scale of operations and low operating margins in an intensely competitive chemical industry. The ratings note the firm's low net worth base and susceptibility of profitability to volatility in raw material prices. However, the ratings draw support from the experienced management.

Update

ARI has fluctuating revenue trend. The firm registered revenues of Rs.19.73 crore in FY2014-15 (refers to financial year, April 01 to March 31). However, the revenues declined to Rs.12.57 crore in FY2015-16 (provisional) mainly on account of disruption in operations due to floods in Chennai. The operating margin stood low at 0.61 per cent in FY2014-15 and is estimated at around 0.83 per cent in FY2015-16 (provisional). Further, the net profits of Rs.0.10 crore are largely supported by non-operating income of Rs.0.22 crore in FY2014-15. The net worth stood low at Rs.1.31 crore as on March 31, 2015.

Rating Sensitivity Factors

- Scaling up revenues while increasing profitability
- Improvement in the financial risk profile

Outlook: Stable

SMERA believes that the outlook on ARI's rated facilities will remain stable over the medium term on account of its experienced management. The outlook may be revised to 'Positive' in case the firm registers substantial growth in revenues and profitability while achieving significant improvement in the financial risk profile. Conversely, the outlook may be revised to 'Negative' if the revenues or profitability decline or the firm registers deterioration in its financial risk profile.

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About the Firm

ARI, established in 1985, is a Chennai-based partnership firm engaged in the trading of chemical products. The day to day business is looked after by Mr. Ashok Kumar Daga and Mr. Dhanraj Daga. The firm caters to customers in Tamil Nadu and Pondicherry.

For FY2014-15, ARI reported profit after tax (PAT) of Rs.0.10 crore on operating income of Rs.19.73, as compared to PAT of Rs.0.09 crore on an operating income of Rs.15.43 crore in FY2013-14.

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