



SMERA RATINGS LIMITED

# Welga Foods Limited (WFL)

## Rating Rationale

**April 08, 2015**

Facilities	Amount (Rs. Crore)	Rating
Cash Credit	8.25	SMERA BB/Stable (Assigned)
Term Loan	1.32	SMERA BB/Stable (Assigned)

SMERA has assigned a long-term rating of '**SMERA BB**' (read as **SMERA double B**) to the abovementioned bank facilities of Welga Foods Limited (WFL). The outlook is '**Stable**'. The rating is supported by the company's experienced management and healthy financial risk profile. The rating also draws comfort from the strategic location of the company's processing unit. However, the rating is constrained by the company's small-scale operations in an intensely competitive segment of the food processing industry. The rating is also constrained by the company's exposure to agro-climatic risk.

WFL, incorporated in 1983, is an Uttar Pradesh-based company engaged in processing of green peas and other vegetables. WFL benefits from its experienced management. The directors of the company have around three decades of experience in the food processing industry. WFL's healthy financial risk profile is reflected in low gearing (debt-equity ratio) of 0.89 times as on March 31, 2014, comfortable interest coverage of 4.45 times and strong operating profit margin of 10.71 per cent in FY2013-14 (refers to financial year, April 01 to March 31). The company's total debt of Rs.6.88 crore (as on March 31, 2014) includes subordinated unsecured loans of Rs.0.62 crore from related parties. SMERA has treated such unsecured loans as quasi-equity. WFL's processing unit is in proximity to several vegetable markets in Uttar Pradesh.

WFL has small-scale operations with revenue of Rs.14.86 crore in FY2013-14. The company faces intense competition from several players in the food processing industry. WFL's business is susceptible to adverse changes in climatic conditions which may affect the availability of vegetables.

### **Outlook: Stable**

SMERA believes WFL will maintain a stable business risk profile over the medium term. The company will continue to benefit from its established operations and experienced management. The outlook may be revised to 'Positive' in case the company registers significant improvement in profitability and cash accruals. The outlook may be revised to 'Negative' in case of significant decline in the company's revenues and cash accruals, or in case of stretch in the company's working capital cycle.

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## About the company

WFL, incorporated in 1983, is an Uttar Pradesh-based company promoted by Mr. Gyan Prakash and Mr. Gaurav Prakash. WFL undertakes processing of green peas and other vegetables. The company has a processing unit in Budaun, Uttar Pradesh.

For FY2013-14, WFL reported profit after tax (PAT) of Rs.0.37 crore on operating income of Rs.14.86 crore, as compared with PAT of Rs.1.05 crore on operating income of Rs.14.09 crore in FY2012-13. The company's net worth stood at Rs.7.05 crore (including unsecured loan of Rs.0.62 crore) as on March 31, 2014, as compared with Rs.0.36 crore (including unsecured loan of Rs.0.12 crore) a year earlier.

## Contact List:

Media/Business Development	Analytical Contacts	Rating Desk
Virendra Goyal Vice President – SME Sales Tel: +91-22-6714 1177 Cell: +91 9930074009 Email: <a href="mailto:virendra.goyal@smera.in">virendra.goyal@smera.in</a> Web: <a href="http://www.smera.in">www.smera.in</a>	Parimal Thakker Manager – Corporate Ratings Tel: +91-11-41806663 Email: <a href="mailto:parimal.thakker@smera.in">parimal.thakker@smera.in</a>	Tel: +91-22-6714 1184 Email: <a href="mailto:ratingdesk@smera.in">ratingdesk@smera.in</a>

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