

Press Release

Welga Foods Limited (WFL)

14 September, 2017

Rating Downgraded



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|------------------------------------|---|
| Total Bank Facilities Rated | Rs. 13.65 crore |
| Long Term Rating | SMERA BB-/Stable (Downgraded from SMERA BB/Stable) |

** Refer Annexure for details*

SMERA has downgraded the long term rating on the above bank facilities of Welga Foods Limited (WFL) to **'SMERA BB-' (read as SMERA double B minus)** from **'SMERA BB' (read as SMERA double B)**. The outlook is **'Stable'**.

The downgrade reflects significant deterioration in its financial risk profile on account of decrease in tangible network, negative cash accruals and coverage indicators. The company incurred loss in FY2016-17.

WFL, incorporated in 1983 was promoted by Mr. Gyan Prakash and Mr. Gaurav Prakash. The company is engaged in the processing of green peas and other vegetables and sells them under the brand name 'Welga' in Uttar Pradesh, Haryana, Rajasthan and Maharashtra. The manufacturing facility is located at Budaun, Uttar Pradesh with installed capacity of 3,400 tons peas per annum.

List of key rating drivers and their detailed description:

Strengths

Established operational track record and experienced management:

WFL is engaged in the processing of green peas since 1983. The distribution network is spread across Uttar Pradesh, Haryana, Rajasthan and Maharashtra. Further, the company markets its products under the 'Welga' brand name. In the current financial year, the company launched ready to cook packaged foods and frozen vegetables such as Mixed vegetables, Cocktail Samosas, Green Chana, American Yellow Corn, French Fries etc. WFL also benefits from its experienced management. The Directors, Mr. Gyan Prakash and Mr. Gaurav Prakash possess over two decades of experience in the food processing business.

SMERA believes that WFL will continue to benefit from its established position in the market and experienced management.

Weaknesses

Decline in revenue

WFL's revenue declined in FY2016-17 (Provisional) to Rs.15.08 crore from Rs.20.92 crore in FY2015-16. The company majorly caters to the catering industry which accounts for 70 percent of its revenue. In FY2016-17, the revenues declined on account of cancelling of orders during demonetisation. WFL achieved revenue of Rs.4.97 crore from April to July 2017.

Below average financial risk profile

WFL has a below average financial risk profile marked by low tangible networth of Rs.4.90 crore as on 31 March, 2017 (Provisional) as against Rs.7.67 crore as on 31 March, 2016. The tangible networth was eroded due to net loss incurred in FY2017. The gearing increased to 2.69 times as on 31 March, 2017 (Provisional) as against 1.73 times as on 31 March, 2016. The total debt of Rs.13.19 crore as on 31 March, 2017 (Provisional) mainly comprises working capital funding of Rs. 12.68 crore and term loan of Rs. 0.35 crore.

Working capital intensive operations:

The operations are working capital intensive reflected by the high gross current asset (GCA) days of 326 in FY2017 as against 292 days in FY2016. This is mainly due to high inventory holding days of 287 days for FY2017 and 314 days in FY2016 due to seasonal procurement of raw materials. The inventory mainly consists of green peas. The company's working capital limit utilisation stood at ~88 per cent for the last six months ended June, 2017.

SMERA believes that the efficient working capital management will be crucial to the company in order to maintain a stable credit profile.

Competitive industry, susceptibility of profit margins to fluctuations in prices:

WFL's profitability is susceptible to fluctuations in prices of agricultural commodities. The company holds high inventory. In FY2017, the company incurred EBITDA loss of Rs.1.00 crore and net loss of Rs.2.77 crore (Provisional) due to fall in prices of green peas. To overcome volatility in raw material prices and to have a diversified product portfolio, the management introduced new frozen vegetables such as American corn, French beans, cauliflower, carrot, potato cubes among others.

Outlook – Stable

SMERA believes that WFL will maintain a stable outlook over the medium term owing to its established operations and long-standing relations with suppliers. The outlook may be revised to 'Positive' if the company registers higher-than-expected growth in revenues and profitability. Conversely, the outlook may be revised to 'Negative' in case of steep decline in profitability or significant deterioration in the capital structure and liquidity position.

Applicable Criteria

- Manufacturing Entity: <https://www.smera.in/criteria-manufacturing.htm>
- Application of Financial Ratios and Adjustments: <https://www.smera.in/criteria-fin-ratios.htm>
- Default Recognition: <https://www.smera.in/criteria-default.htm>

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for the last three years:

| Date | Name of Instrument / Facilities | Term | Amount (Rs. Crore) | Ratings/Outlook |
|---------------|---------------------------------|-----------|--------------------|--------------------------------|
| 09-May, 2016 | Term Loan | Long Term | 0.65 | SMERA BB / Stable (Reaffirmed) |
| | Cash Credit | Long Term | 13.00 | SMERA BB / Stable (Reaffirmed) |
| 08-April 2015 | Term Loan | Long Term | 1.32 | SMERA BB / Stable (Assigned) |
| | Cash Credit | Long Term | 8.25 | SMERA BB / Stable (Assigned) |

***Annexure – Details of instruments rated:**

| Name of the Facilities | Date of Issuance | Coupon Rate | Maturity Date | Size of the Issue (Rs. Crore) | Ratings/Outlook |
|------------------------|------------------|-------------|---------------|-------------------------------|--|
| Term Loan | NA | NA | NA | 0.65 | SMERA BB -/ Stable (Downgraded from SMERA BB/Stable) |
| Cash Credit | NA | NA | NA | 13.00 | SMERA BB -/ Stable (Downgraded from SMERA BB/Stable) |

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ABOUT SMERA

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