

Press Release

Welga Foods Limited (WFL)

May 10, 2018

Rating Downgraded and Assigned



Total Bank Facilities Rated*	Rs.17.65 Cr.
Long Term Rating	SMERA B+/Outlook: Stable (Downgraded from SMERA BB-/Stable)

* Refer Annexure for details

Rating Rationale

SMERA has downgraded long term rating to '**SMERA B+**' (**read as SMERA B plus**) from '**SMERA BB-**' (**read as SMERA double B minus**) to the Rs.14.75 crore bank facilities and assigned long term rating of '**SMERA B+**' (**read as SMERA B plus**) to the Rs.2.90 crore bank facilities of Welga Foods Limited (WFL). The outlook is '**Stable**'.

The downgrade is in view of continuous decline in scale of operations to Rs.14.52 crore in FY2018 (Provisional) from Rs.15.08 crore in FY2017 and Rs.20.92 crore in FY2016. Further, significant stretch in working capital is observed as reflected in Gross Current Assets (GCA) of 517 days in FY2018(Provisional) as against 326 days in FY2017 and 292 days in FY2016.

The Uttar Pradesh-based, Welga Foods Limited (WFL) was incorporated in 1983 by Mr. Gyan Prakash, Mr. Ram Gopal Vaish and Mrs. Rashmi Agarwal. The company is engaged in processing of vegetables majorly Green Peas. The company sells these products under its own brand name 'Welga'. The processing plant is located in Uttar Pradesh with processing capacity of 3,400 metric tons of peas per annum.

Key Rating Drivers

Strengths:

Experienced management

Mr. Gyan Prakash (Managing Director) and Mr. Gaurav Prakash (Managing Director) have over two decades of experience in the food processing industry. Being into similar line of business since past two decades, the promoters have gained expertise in the industry and have developed healthy relations with customers and suppliers.

Weaknesses:

Decline in scale of operations and profitability

WFL has reported operating income of Rs.15.08 crore in FY2017 as against Rs.20.92 crore in FY2016 and as per provisional FY2018 financials the revenues have further declined to Rs.14.52 crore. The company has reported operating loss of Rs.1 crore in FY2017 as against operating profit of Rs.2.35 crore.

Below average financial risk profile

The financial risk profile is average marked by networth of Rs.5.05 crore as on 31 March, 2018 (Provisional) as compared to Rs.4.90 crore as on 31 March, 2017. The gearing (debt to equity) deteriorated to 3.07 times as on 31 March, 2018 (Provisional) from 2.69 times as on 31 March, 2017. The total debt of Rs.15.50 crore as on 31 March, 2018 (Provisional) comprises working capital facilities of Rs.13.72 crore, unsecured loans from Promoters of Rs.1.41 crore and term loan of Rs.0.37 crore. The Interest Coverage Ratio (ICR) for FY2018 (Provisional) was 1.56 times.

Working capital intensive operations

The operations are working capital intensive in nature as reflected by the Gross Current Assets (GCA) days of 517 in FY2018 (Provisional) as against 326 in FY2017. This was mainly due to high inventory holding of 555 days in FY2018 (Provisional) as compared to 287 days in FY2017. The inventory mainly consists of green peas which is maintained at high levels to hedge against volatility in prices.

Competitive industry, susceptibility of profit margins to fluctuations in prices

The 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 among others.

Analytical Approach:

SMERA has considered the standalone business and financial risk profiles of WFL to arrive at the rating.

Outlook: Stable

SMERA believes that WFL will maintain a 'Stable' business risk profile over the medium term on account of experienced management and long-standing relations with suppliers. The outlook may be revised to 'Positive' in case of significant growth in scale of operations and profitability or maintenance of working capital within acceptable levels. Conversely, the outlook may be revised to 'Negative' in case of further decline in scale of operations or profitability and in case of further elongation in working capital cycle thereby impacting liquidity.

About the Rated Entity - Key Financials

	Unit	FY18 (Provisional)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	14.52	15.08	20.92
EBITDA	Rs. Cr.	1.88	(1.00)	2.35
PAT	Rs. Cr.	0.15	(2.77)	1.01
EBITDA Margin	(%)	12.95	(6.63)	11.24
PAT Margin	(%)	1.06	(18.38)	4.84
ROCE	(%)	6.76	(7.87)	9.70
Total Debt/Tangible Net Worth	Times	3.07	2.69	1.73
PBDIT/Interest	Times	1.56	-0.76	4.30
Total Debt/PBDIT	Times	8.21	-15.04	5.63
Gross Current Assets (Days)	Days	517	326	292

Any other information:

SMERA is yet to receive the latest No Default Statement (NDS) from the rated entity, despite repeated requests and follow-ups.

Applicable Criteria

- Default Recognition - <https://www.smerra.in/criteria-default.htm>
- Manufacturing Entities - <https://www.smerra.in/criteria-manufacturing.htm>
- Financial Ratios And Adjustments - <https://www.smerra.in/criteria-fin-ratios.htm>

Note on complexity levels of the rated instrument

<https://www.smerra.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Crore)	Ratings/Outlook
14-Sep-2017	Term Loan	Long Term	0.65	SMERA BB-/ Stable (Downgraded)
	Cash Credit	Long Term	13.00	SMERA BB-/ Stable (Downgraded)
9-May-2016	Term Loan	Long Term	0.65	SMERA BB/ Stable (Reaffirmed)
	Cash Credit	Long Term	13.00	SMERA BB/ Stable (Reaffirmed)
8-Apr-2015	Cash Credit	Long Term	8.25	SMERA BB/ Stable (Assigned)
	Term Loan	Long Term	1.32	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
Cash Credit	Not Applicable	Not Applicable	Not Applicable	14.10	SMERA B+ / Stable (Downgraded)
Term loans	Not Applicable	Not Applicable	Not Applicable	0.65	SMERA B+ / Stable (Downgraded)
Proposed Facility	Not Applicable	Not Applicable	Not Applicable	2.90	SMERA B+ / Stable (Assigned)

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ABOUT SMERA

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