

### D.D. International Inc. (DDI): Downgraded

Name of the Instrument	Amount (Rs. Crore)	Rating/Outlook
Cash Credit	150.00	SMERA B+/Stable (Downgraded from SMERA BB/ Stable)

SMERA has downgraded the rating on the abovementioned bank facility of D.D. International Inc. (DDI) to '**SMERA B+ (read as SMERA B plus)**' from '**SMERA BB' (read as SMERA double B)**'. The outlook is '**Stable**'.

The rating downgrade is driven by decline in the firm's operating income, losses at net level and weak debt protection metrics. The downgrade takes into account the high inventory holding period, exposure to agro-climatic risks and the fragmented rice milling industry. However, the rating continues to draw support from the experienced partners and strategic location of the processing unit.

#### Update

For FY2014-15 (refers to financial year, April 01 to March 31), DDI registered net loss of Rs.7.61 crore on operating income of Rs.247.27 crore in contrast to net profit of Rs.3.93 crore on operating income of Rs.187.16 crore in FY2013-14. Despite increase in operating income, the net profit has eroded due to increase in fixed overheads and high procurement prices. The financial risk profile has also deteriorated marked by weak interest coverage ratio of 0.36 times in FY2014-15 as compared to 1.10 times in FY2013-14 (refers to financial year, April 01 to March 31). For FY2015-16 the firm reported operating income of Rs.82.95 crore (Provisional).

The firm's operations are working capital intensive marked by gross current asset (GCA) of 561 days (provisional) against 193 days during the previous year. The high GCA days emanates from the high inventory holding period of 510 days (provisional), in contrast with 179 days in FY2014-15. SMERA also notes that the firm is exposed to agro climatic risks and intense competition from other renowned players in the domestic market.

DDI benefits from its experienced partners. Mr. Bhatia has over 25 years of experience in processing and trading of rice. Further, the rating also draws support from the strategic location of the processing unit.

#### Outlook: Stable

SMERA believes that DDI will maintain a stable business risk profile over the medium term and continue to benefit from its experienced partners. The outlook may be revised to 'Positive' in case of significant and sustained improvement in operating income, profitability margins and financial risk profile. Conversely, the outlook may be revised to 'Negative' in case of further deterioration in the firm's revenue profile, lengthening of working capital cycle or debt funded capital expansion.

#### Rating Sensitivity Factors

- Efficient working capital cycle
- Sustainable growth in revenue and profitability profile

**Criteria applied to arrive at the rating:**

- Manufacturing Entities
- Trading Entities

**About the Firm**

The Haryana-based DDI incorporated in 1979 by Mr. Bhatia is engaged in the processing and trading of rice and has an installed processing capacity of 27 tonnes per hour (TPH). The total debt of Rs.128.54 crore (as on March 31, 2015) includes interest bearing unsecured loans of Rs.1.61 crore from promoters, friends and relatives that are subordinated to bank debt. SMERA has treated such unsecured loans as quasi-equity. The firm sells basmati rice under the 'Nature's Gift' brand name.

For FY2014-15, the firm reported net losses of Rs.7.61 crore on operating income of Rs.247.27 crore, as compared with profit after tax (PAT) of Rs.3.93 crore on operating income of Rs.187.16 crore in FY2013-14. For FY2015-16, the firm booked revenue of Rs.82.95 crore. The net worth stood at Rs.65.05 crore as on March 31, 2015 as against Rs.75.28 crore a year earlier.

**Rating History**

			Rating	
Name of the Instrument	Date of Issuance	Amount (Rs. crore)	Long Term	Rating Watch/ Outlook
Cash Credit	21 April, 2015	150.00	SMERA BB	Stable

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## **ABOUT SMERA**

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