

May 28, 2015

Facilities	Amount (Rs. Crore)	Ratings
Term Loan	2.00	SMERA B/Stable (Assigned)
Cash Credit	4.00	SMERA B/Stable (Assigned)
Letter of Credit	1.50	SMERA A4 (Assigned)

SMERA has assigned a rating of '**SMERA B**' (read as **SMERA single B**) to the Rs.6.00 crore fund based bank facilities and '**SMERA A4**' (read as **SMERA A four**) to the Rs.1.50 crore non-fund based bank facility of Neelachal Organisation Private Limited (NOPL). The outlook is '**Stable**'. The ratings are supported by the company's experienced management. The ratings also draw comfort from the improvement in the company's profitability. However, the ratings are constrained by the company's short operational track record, small-scale operations, high gearing and weak debt protection metrics. The ratings factor in risks related to the company's debt-funded capex. The ratings are also constrained by the susceptibility of the company's profit margins to competitive pressures, raw material price volatility and forex fluctuations.

NOPL undertakes processing (lamination) of particle and fibre boards. The company is also engaged in trading of laminated sheets. NOPL started commercial operations in 2012. The company benefits from its experienced management. Mr. Ram Lal Agarwala, director of NOPL, has around four decades of experience in wood and wood products industry. Mr. Manish Jajodia and Mr. Bikash Jajodia, directors of NOPL, have around 10 years of experience in the company's line of business. NOPL's operating margin increased from 6.89 per cent in FY2013-14 to 8.07 per cent (provisional) in FY2014-15 on account of decline in raw material cost.

NOPL has small-scale operations marked by revenue of Rs.12.49 crore in FY2014-15. The company's gearing (debt-equity) ratio is high at 9.87 times (provisional) as on March 31, 2015 (8.14 times as on March 31, 2014). NOPL's total debt of Rs.5.49 crore (as on March 31, 2015) includes unsecured loans of Rs.0.50 crore from promoters. The company's weak coverage indicators are reflected in interest coverage ratio of 1.59 times and debt service coverage ratio (DSCR) of 1.00 times in FY2014-15.

NOPL plans to set up a new factory unit for sunmica lamination. The project cost is estimated at ~Rs.3.00 crore, which is likely to be funded through promoters' funds of Rs.0.75 crore and bank borrowings of Rs.2.25 crore. The project is at the nascent stage of execution. Notwithstanding the benefits of diversification, SMERA believes NOPL's financial profile may deteriorate on account of the debt-funded capex.

NOPL faces intense competition from several players in wood and wood products industry. The company's profit margins are highly susceptible to volatility in raw material prices as material cost accounts for ~92 per cent of the total cost of sales. NOPL's profitability is also exposed to forex fluctuation risk inherent in unhedged import purchases.

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Outlook: Stable

SMERA believes NOPL will maintain a stable business risk profile over the medium term. The company will continue to benefit from its experienced management. The outlook may be revised to 'Positive' in case the company registers strong growth in scale of operations while maintaining comfortable profit margins and achieving sustained improvement in financial risk profile. The outlook may be revised to 'Negative' in case the company fails to achieve the projected scalability amidst intensifying competition in its area of operations, or in case of deterioration in the company's financial risk profile on account of higher-than-expected increase in debt-funded capital expenditure and working capital requirements.

About the company

NOPL is a Kolkata-based company engaged in processing (lamination) of particle and fibre boards. The company also undertakes trading of laminated sheets. NOPL started commercial operations in 2012. The company has processing capacity of 92,16,000 sq. ft. per annum for particle boards.

For FY2014-15, NOPL reported profit after tax (PAT) of Rs.0.07 crore (provisional) on operating income of Rs.12.49 crore (provisional), as compared with PAT of Rs.0.02 crore on operating income of Rs.12.91 crore in FY2013-14. The company's net worth stood at Rs.0.56 crore as on March 31, 2015, as compared with Rs.0.48 crore a year earlier.

Contact List:

Media/Business Development	Analytical Contacts	Rating Desk
Antony Jose Vice President – Business Development, Mid Corporate Tel: +91-22-6714 1191 Cell: +91 9820802479 Email: antony.jose@smera.in Web: www.smera.in	Shripad Nande Manager – Corporate Ratings Tel: +91-22-6714 1329 Email: shripad.nande@smera.in	Tel: +91-22-6714 1184 Email: ratingdesk@smera.in