

April 29, 2016

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

SMERA has upgraded the rating of Rs. 6.00 crore fund based bank facilities of Neelachal Organisation Private Limited (NOPL) to '**SMERA B+**' (**read as SMERA B plus**) from '**SMERA B**' (**read as SMERA B**) and reaffirmed rating of '**SMERA A4**' (**read as SMERA A four**) assigned to Rs.1.50 crore non-fund based bank facility. The outlook is '**Stable**'. The rating upgrade is in view of the improvement in company's financial risk profile and working capital cycle.

The ratings continue to draw comfort from the company's experienced management. The ratings also draw comfort from company's healthy profitability and moderate financial risk profile. However, the ratings are constrained by the company's limited operational track record and small-scale of operations. The ratings are also constrained by the susceptibility of the company's profit margins to competitive pressures, raw material price volatility and forex fluctuations.

Update

In FY2015-16, NOPL has registered sales of Rs. 14.62 crore (provisional) as against sales of Rs. 12.60 crore in FY2014-15, registering a growth of ~16 per cent due to increase in volume sales. In FY2015-16 (provisional) NOPL has achieved operating margins of 8.28 per cent as against 10.22 per cent in FY2014-15, the decline is due to increase in raw material cost.

The gearing (debt to equity) has improved to 1.59 times in FY2015-16 (provisional) from 4.39 times in FY2014-15 due to infusion of capital of Rs. 0.63 crore and reduced reliance on debt due to improved working capital cycle. Debtor days have improved to 34 days in FY2015-16 from 55 days in FY2014-15 due to quicker realisations. Thus, working capital cycle has improved to 84 days in FY2015-16 from 110 days in FY2014-15. Average bank limit utilisation is at ~85 per cent in last six months ending March 2016.

Rating Sensitivity Factors

- Sustained improvement in scale of operations and profitability
- Improvement in capital structure
- Improvement in coverage indicators
- Working capital management

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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.

For FY2014–15, NOPL reported profit after tax (PAT) of Rs.0.18 crore (provisional) on operating income of Rs.12.60 crore, 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.1.14 crore as on March 31, 2015, as compared with Rs.1.24 crore a year earlier.

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