SMERA RATINGS LIMITED

Deepak Agro Private Limited: Reaffirmed

Facility	Amount (Rs Crore)	Rating/Outlook
Cash Credit	10.00	SMERA B+/Stable (Reaffirmed)

SMERA has reaffirmed the long term rating of **'SMERA B+' (read as SMERA B plus)** on the Rs.10.00 crore bank facility of Deepak Agro Private Limited (DAPL). The outlook continues to remain **'Stable'**.

The rating continues to be supported by the established track record of operations, experienced management and strategic location of the processing unit. However, the rating continues to be constrained by the modest scale of operations, high gearing, working capital intensive business and high liquidity (90 per cent bank limit utilisation). The rating also factors in the volatility in raw material prices of paddy and intense competition in the rice industry.

DAPL was incorporated in 1994 and promoted by Mr. Mahesh Chand Agnihotri, Mr. Ram Naresh Agnihotri and their families. The company is engaged in the processing of paddy into basmati rice at Mainpuri (Uttar Pradesh). The promoters have over two decades of experience in the rice industry.

DAPL's revenue has improved to Rs.30.10 crore in FY2015-16 from Rs.25.49 crore in FY2014-15. The interest coverage ratio stands at 1.58 times in FY2015-16 against 1.77 times in FY2014-15. The operating margins improved to 5.60 per cent in FY2015-16 against 5.05 per cent in FY2014-15.

DAPL has high gearing (debt-to-equity) of 3.16 times in FY2015-16 against 3.20 times in FY2014-15. The company has high working capital intensive business marked by 194 days in FY2015-16 as compared to 198 days in FY2014-15. The profit margin is low at 0.37 per cent in FY2015-16 against 0.37 per cent in FY2014-15. Besides, the profit margins are exposed to volatility in raw material prices, agro climatic risks and proximity to raw material sources. The company operates in an intensely competitive rice milling industry.

Outlook- Stable

SMERA believes that the company will continue to maintain a stable outlook on the back of the management's extensive experience in the rice milling business and established relationships with customers. The outlook may be revised to 'Positive' in case of sustained increase in revenues and accruals while maintaining its working capital cycle. Conversely, the outlook may be revised to 'Negative' in case of significant decline in revenues and accruals or elongation of working capital cycle.

Rating Sensitivity Factors

- Scaling up operations and profitability
- Improvement in working capital cycle

Criteria applied to arrive at the rating:

- Manufacturing Entities

About the Company

DAPL is an Uttar Pradesh-based company, incorporated in 1994, by Mr. Mahesh Chand Agnihotri, Mr. Ram Naresh Agnihotri and families. The company is engaged in the milling and processing of basmati rice.

For FY2015–16, the company reported profit after tax (PAT) of Rs.0.11 crore on operating income of Rs.30.10 crore, as compared with profit after tax (PAT) of Rs.0.09 crore on operating income of Rs.25.49 crore in FY2014-15. The net worth stood at Rs.4.48 crore (included quasi equity of Rs.1.17 crore) as on March 31, 2016 against Rs.3.84 crore (included quasi equity of Rs.0.54 crore) a year earlier.

Rating History:

Date	Facility	Amount (Rs. Crore)	Rating		Rating Outlook
			Long Term	Short Term	
28 Dec , 2015	Cash Credit	10.0	SMERA B+ (Assigned)	-	Stable

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ABOUT SMERA

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