

Press Release

Scientific Agriculture Laboratory Private Limited

April 08, 2017

Rating Downgraded

Total Bank Facilities Rated*	Rs. 6.00 Cr.
Long Term Rating	SMERA B / Outlook: Stable

* Refer Annexure for details

Rating Rationale

SMERA has downgraded long-term rating to '**SMERA B**' (read as **SMERA B**) on the Rs. 6.00 crore bank facilities of Scientific Agriculture Laboratory Private Limited. The outlook is '**Stable**'.

Scientific Agriculture Laboratory Private Limited (SALPL) was incorporated in 2012 to take over the existing business of Scientific Agriculture Laboratory (SAL) which was established in 1977. SAL is engaged in the manufacture of organic fertilisers and pesticides at Madurai and caters to wholesalers and retailers in the domestic market. The company is led by K. Subulakshmi and Mr. K. Muthukumar. The takeover was done with effect from April 01, 2015. The rating downgrade is due to deterioration in its financial risk profile, primarily on account of increase in external debt. The rating also factors in the decline in operating income and dependency on monsoon for manufacture of organic fertilisers.

Key Rating Drivers

Strengths

- Long track record of operations and experienced management**

SAL is engaged in the manufacturing of organic fertilisers and pesticides. The Director, Mr. Muthukumar possesses vast experience in the aforementioned industry.

Weaknesses

- Small scale of operations**

SALPL operates on a small scale. The operating income declined to Rs. 34.87 cr in FY2016 from Rs. 56.68 in FY2015 due to fewer orders. The products are dependent on the monsoon and owing to low rainfall the company registered revenue of ~Rs.28.00 cr from April 2016 - January 2017.

- Below average financial risk profile**

SALPL has below average financial risk profile marked by low net worth of Rs.3.16 cr as on March 31, 2016 compared to Rs.8.24 cr as on March 31, 2015. The Interest coverage ratio stood at 1.58 times in FY2016 compared to 3.34 times in FY2015. The DSCR stood at 1.54 times in FY2016.

- Uneven profit margins**

SAL operates on uneven profit margins visible from its trend of the last three years. The EBITDA margin improved to 4.15 percent in FY2016 compared to 3.09 percent in FY2015 on account of decline in raw material prices. Thus, margins are susceptible to fluctuations in raw material prices.

- Working capital intensive nature of business**

The operations of SALPL are working capital intensive marked by GCA days of 185 days in FY2016 (PY: 134 days). This is on account of high debtor days of 107 days. The average six months cash credit utilisation ended February 2017 stood at ~98.08 percent.

Analytical Approach

SMERA has considered the standalone business and financial risk profiles of SALPL.

Outlook: Stable

SMERA believes that SALPL's outlook will remain stable owing to its promoters experience in the fertiliser industry. The outlook may be revised to 'Positive' if its scale of operations increases substantially, while improving operating profitability. Conversely, the outlook may be revised to 'Negative' in case of weakening of operating margins or if the financial risk profile deteriorates owing to higher-than-expected increase in debt-funded working capital requirements.

About the Rated Entity - Key Financials

For FY2016, SALPL reported net profit of Rs. 0.07 cr on operating income of Rs. 34.87 cr as compared to net profit of Rs. 0.74 cr on operating income of Rs. 56.68 cr in the previous year. The net worth stood at Rs. 8.24 cr as on March 31, 2016 against net worth of Rs. 3.16 cr a year earlier.

Status of non-cooperation with previous CRA (if applicable)

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.smera.in/criteria-default.htm>
- Manufacturing Entities - <https://www.smera.in/criteria-manufacturing.htm>
- Financial Ratios And Adjustments - <https://www.smera.in/criteria-fin-ratios.htm>
- Complexity Level Of Financial Instruments - <https://www.smera.in/criteria-complexity-levels.htm>

Note on complexity levels of the rated instrument

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

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
24-Feb-2016	Cash Credit	Long Term	INR 6	SMERA BB- / Stable

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	6.00	SMERA B / Stable

Contacts

Analytical	Rating Desk
Vinayak Nayak Head – Ratings Operations Tel: 022-67141190 vinayak.nayak@smera.in	Varsha Bist Sr. Executive Tel: 022-67141160 varsha.bist@smera.in
Sudarson Swami Rating Analyst Tel: 022-67141179 sudarson.swami@smera.in	

ABOUT SMERA

SMERA Ratings Limited is a joint initiative of SIDBI, D&B and leading public and private sector banks in India. SMERA is registered with SEBI, accredited by RBI as an External Credit Assessment Institution (ECAI), under BASEL-II norms for undertaking Bank Loan Ratings. SMERA Bond Ratings is a division of SMERA Ratings Limited responsible for ratings of bank facilities, and capital market/money market debt instruments such as Bonds, Debentures, Commercial Papers, Fixed Deposits, Certificate of Deposits etc.. For more details, please visit www.smera.in.

Disclaimer: *A SMERA rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. SMERA ratings are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, SMERA, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. SMERA is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind arising from the use of its ratings. SMERA ratings are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website (www.smera.in) for the latest information on any instrument rated by SMERA.*