

Press Release

Oswal Seeds and Chemicals (OSC)

10 October, 2017

Rating Upgraded



Total Bank Facilities Rated	Rs. 7.75 crore
Long Term Rating	SMERA B+/Stable (Upgraded from SMERA B/Stable)

** Refer Annexure for details*

SMERA has upgraded the long-term rating on the above mentioned bank facilities of Oswal Seeds and Chemicals (OSC) to **'SMERA B+' (read as SMERA B plus)** from **'SMERA B' (read as SMERA B)**. The outlook is **'Stable'**.

The rating upgrade reflects improvement in the profitability profile of the firm.

OSC, established by Mr. Sanjay Begani and Mr. Anil Nahata, is engaged in the processing of agricultural seeds at Neemuch (Madhya Pradesh). The firm has an installed capacity of 2,00,000 quintal per annum and sells seeds under the 'Oswal' brand name in Madhya Pradesh, Maharashtra and Bihar.

List of key rating drivers and their detailed description:

Strengths

Established operational track record and experienced management: OSC is engaged in the processing of agricultural seeds since 2002. The promoters have around two decades of experience in seed processing.

SMERA believes that OSC will continue to benefit from its established position in the market and experienced management.

Moderate revenue growth: The revenue increased by 10.47 per cent to Rs. 42.84 crore in FY2016-17 (Provisional) from Rs. 38.78 crore in FY2015-16. Further, the firm booked revenue of around Rs. 16.50 crore for the period April to July 2017.

Improved margins: The EBITDA margins improved from 2.81 percent in FY2015 to 6.81 per cent in FY2016 mainly on account of decline in raw material cost and other expenses. Further, margins stood at 5.46 percent in FY2017 (Provisional). The net margins improved to 1.61 percent in FY2017 (Provisional) from 0.95 percent in the previous year mainly on account of low utilisation of working capital facility.

Weaknesses

Average financial risk profile: The financial risk profile is average marked by moderate tangible networth of Rs.5.57 crore as on 31 March, 2017 (Provisional) as against Rs.4.78 crore as on 31 March, 2016. The gearing stood at 2.51 times as on 31 March, 2017 (Provisional) as against 3.37 times as on 31 March, 2016 mainly due to repayment of term loan and limited utilisation of working capital funding from the previous year. The total debt of Rs.14.00 crore as on 31 March, 2017 majorly comprises working capital loan of Rs. 12.91 crore and term loan of Rs. 1.09 crore. OSC has

moderate interest coverage ratio of 1.63 times in FY2016-17 (Provisional) as against 1.32 times in FY2015-16.

The working capital cycle remained elongated at 117 days in FY2016-17 (168 days in FY2015-16) due to inventory holding and debtor days of 129 and 53 days respectively while creditor days stood at 65 days in FY2017 (Provisional). The working capital limit utilisation stood at 73.03 during the last six months ended July, 2017.

Going forward, the firm plans to purchase sortex machinery of Rs.2.00 crore to be funded partly by debt (70 percent) and own funds.

Highly fragmented, competitive and seasonal industry: OSC operates in a highly competitive and fragmented agro commodity industry characterised by large number of unorganised players which impacts profit margins. The industry is also exposed to agro climatic risks.

Partnership constitution: The firm is exposed to risk of capital withdrawal considering its partnership constitution.

Analytical Approach

SMERA has considered the standalone business and financial risk profile.

Outlook: Stable

SMERA believes that the outlook of OSC will remain stable owing to the promoter's extensive experience in the industry. The outlook may be revised to 'Positive' if the scale of operations increases substantially, while achieving improvement in profitability and financial risk profile. Conversely, the outlook may be revised to 'Negative' in case of lower than expected growth in revenue and decline in margins or if the firm registers deterioration in its financial risk profile due to higher than expected debt funded working capital requirement.

About the Rated Entity - Key Financials

For FY2016-17 (Provisional), OSC reported net profit of Rs.0.69 crore on operating income of Rs.42.84 crore, compared to net profit of Rs.0.37 crore on operating income of Rs.38.78 crore in FY2015-16. The net worth stood at Rs.5.57 crore as on 31 March, 2017 (Provisional) as against Rs.4.78 crore, a year earlier.

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

Not Applicable

Any other information

Not Applicable

Applicable Criteria

- Manufacturing Entities : <https://www.smera.in/criteria-manufacturing.htm>
- Application of Financial Ratios and Adjustments: <https://www.smera.in/criteria-fin-ratios.htm>
- Default Recognition: <https://www.smera.in/criteria-default.htm>

Rating History for the last three years:

Date	Name of Instrument / Facilities	Term	Amount (Rs .Crore)	Ratings/Outlook
14-Jul, 2017	Cash Credit	Long Term	7.00	SMERA B (Indicative)
	Term Loan	Long Term	0.75	SMERA B (Indicative)
31-Mar, 2016	Cash Credit	Long Term	7.00	SMERA B/Stable (Assigned)
	Term Loan	Long Term	0.75	SMERA B/Stable (Assigned)

*Annexure – Details of instruments rated:

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
Cash Credit	NA	NA	NA	7.00	SMERA B+/ Stable (Upgraded)
Term Loan	NA	NA	NA	0.75	SMERA B+/ Stable (Upgraded)

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ABOUT SMERA

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