January 31, 2013 - Mumbai

Facilities	Amount (Rs. Crore)	Rating
Cash Credit	**20.00**	**SMERA BBB-/Stable (Assigned)**
Term Loan	**2.00**	**SMERA BBB-/Stable (Assigned)**

SMERA has assigned a rating of **'SMERA BBB-'** (read as **SMERA Triple B minus**), to the fund based facilities of DPD Industries Limited. The outlook is **Stable**. The rating factors the company's wide distribution reach, integrated level of operations and proximity to raw material sourcing. The rating also factors in high growth in revenues coupled with the support from experienced management. However, the rating is tempered by the company's working capital intensive operations, highly fragmented and competitive nature of the industry, low operating margins, and moderate coverage ratios.

DPD has a wide distribution reach with chain of 42 distributors and stockists catering to Delhi, Haryana, Kolkata, Orissa, Kerala, and Maharashtra. DPD also benefits from the proximity to paddy growing areas of the district. Moreover, the company has integrated level of operations like boiling, drying, de-husking, polishing, sorting, grading, and packing.

The rating also factors the high growth in operations; the revenues have grown at a CAGR of 47 per cent in last five years. In FY 2012, the revenues stood at Rs.69.44 crores as compared to revenues of Rs.48.45 crores in FY 2011, a growth of 43 per cent in FY 2012. The business is also supported by experienced management; Mr. Devindarpal Dhawan and Mr. Surinderpal Dhawan, both having over two decades of experience.

The rating is however, constrained by working capital intensive operations; DPD's working capital requirements are reflected in its high gross current asset days of 201 days (an average of 4 years); as on March 31, 2012 it stands at 157 days. The rice milling industry has very low entry barriers; it is highly fragmented with presence of unorganised players, exerting pressure on margins leading to high leverage. The rating also factors in low operating margins of 7.32 per cent in FY 2012 and 3.33 per cent in FY 2009. The PAT margins also remained under pressure due to increasing interest and finance cost. Given the working capital requirements, the coverage ratios are weak – interest coverage ratio stood at 1.62 times in FY 2012 as compared to 1.41 times in FY 2010 and 2011.

Outlook - Stable

SMERA believes DPD's outlook will remain stable over the medium term driven by healthy business growth and continued debt protection metrics. The outlook may be revised to 'Positive' in case the company effectively manages the working capital, improves the capital structure and generates higher than expected cash flows. The outlook may be revised to 'Negative' in case the company borrows additional debt for working capital and exhibits lower than expected margins.

About the Company

DPD Industries was established in the year 2004; In October 2010 the firm was reconstituted into a public limited company (closely held). Dhawan family is the promoter of the company; Mr. Devinderpal Dhawan is the Managing Director and is supported by Mr. Surinderpal Dhawan, Mr. Sarabjitpal Dhawan in capacity of directors.

The company processes paddy into various types of basmati rice, it also sells the by-products obtained during the process, such as bran, broken rice and husk.

DPD reported a profit after tax of Rs. 0.80 crore on net sales of Rs. 69.44 crore for the financial year 2011-12, as against a profit after tax of Rs. 0.73 crore on net sales of Rs. 48.45 crore for the year 2010-11. DPD's net worth stood at Rs. 11.5 crore as on March 31st 2012, which is increased from Rs.9.1 crore as on March 31st 2011.

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