

Amol Enterprises: Assigned

Facilities	Amount (Rs. Crore)	Rating/Outlook
Cash Credit	3.50	SMERA B+/Stable (Assigned)
Term Loan	1.95	SMERA B+/Stable (Assigned)
Fund Based Facilities (Proposed)	1.55	SMERA B+/Stable (Assigned)

SMERA has assigned rating of '**SMERA B+ (read as SMERA B plus)**' to the Rs.7.00 crore bank facilities of Amol Enterprises (AE). The outlook is '**Stable**'.

The rating is constrained by the modest scale of operations, low profitability and exposure to agro climatic risks. The rating also factors in the risk of capital withdrawal due to the partnership constitution and the competitive and fragmented rice milling business. Further, the rating also notes the risks associated with the debt funded capex plan. However, the rating draws comfort from the experienced management and proximity to raw material source. The rating also draws support from the average financial risk profile and efficient working capital management.

Amol Enterprises, a Nagpur-based partnership firm established in 2011 is engaged in the processing and milling of non-basmati rice. The firm has operating margin of 3.24 percent and net profit margins of 0.87 percent in FY2015-16 due to low value additive business. The profitability is susceptible to volatility in paddy prices. The main raw material, paddy is a seasonal crop and production of the same is highly dependent upon the monsoon thus exposing the firm to agro climatic risks.

The firm operates in a competitive and fragmented rice milling industry with low entry barriers resulting in intense competition from the organised as well as the unorganised players and limiting the bargaining power with customers. Further, the rating also takes into account the partnership constitution of the firm with risk of capital withdrawal.

Amol Enterprises has undertaken debt funded capital expansion to increase production capacity from 20 quintal per hour to 80 quintal per hour. The project is expected to be funded by a term loan of Rs 1.95 crore, promoters contribution of Rs 0.50 crore and other interest free loans raised through relatives of Rs.0.55 crore. Notwithstanding the benefits of capacity addition, the project is likely to put pressure on the liquidity position of the firm.

However, Amol Enterprises benefits from its experienced management. Mr. Amol Bachuwar, Mr. Suresh Gogulwar and Mrs. Leena Chimdyalwar possess decades of experience in rice milling. Further, the firm's processing facility is located at Nagpur (Maharashtra), thus providing proximity to raw material sources.

The operating income stood at Rs.27.86 crore for FY2015-16 as against Rs.25.15 crore in FY2014-15. As indicated by the management, the firm achieved revenue of Rs.11.71 crore in HY2016-17.

Amol Enterprises has average financial risk profile marked by gearing (debt-to-equity ratio) of 2.01 times as on March 31, 2016. The interest coverage ratio (ICR) stood at 1.52 times in FY2015-16. The firm has comfortable working capital management marked by gross current assets of 84 days in FY2015-16. This is on account of debtors of 41 days and inventory of 43 days in FY2015-16. The average cash credit utilisation stood at ~ 86.71 percent for the six months ended September 2016.

Rating Sensitivity Factors

- Sustained improvement in revenues and profitability
- Movement in gearing and coverage indicators
- Efficient working capital management

Outlook -Stable

SMERA believes that Amol Enterprises will maintain a stable outlook in the medium term on the back of its experienced management. The outlook may be revised to 'Positive' if the firm achieves more than expected revenue while improving profit margins and capital structure. Conversely, the outlook may be revised to 'Negative' in case of steep decline in revenues, profitability or deterioration in the capital structure owing to higher than envisaged working capital requirements.

Criteria applied for arriving at the rating:

- Manufacturing Entities

About the Firm

The Nagpur-based Amol Enterprises was established in 2011 as a partnership firm by Mr. Amol Bachuwar, Mr. Suresh Gogulwar and Mrs. Leena Chimdyalwar. The firm is engaged in the processing and milling of non-basmati rice. It procures paddy from local farmers, processes the same and sells to traders and dealers.

For FY2015-16, Amol Enterprises achieved net profit after tax (NPAT) of Rs.0.24 crore on operating income of Rs.27.86 crore as compared to NPAT of Rs.0.07 crore on operating income of Rs.25.15 crore in FY2014-15.

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ABOUT SMERA

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