

Press Release

Vijaya Sarada Delint Seed Mills (VSDSM)

02 February, 2017

Rating Assigned

Total Bank Facilities Rated*	Rs.10.00 Cr
Long Term Rating	SMERA BB-/Stable (Assigned)

*Refer Annexure for details

Rating Rationale

SMERA has assigned long-term rating of '**SMERA BB-**' (read as **SMERA double B minus**) on the Rs.10.00 crore bank facility of Vijaya Sarada Delint Seed Mills (VSDSM). The outlook is '**Stable**'.

VSDSM is an Andhra Pradesh-based proprietorship concern engaged in the processing of cotton seeds into de-oiled cake, cotton seed oil, hull and others. The entity was promoted by Mr. K. Subhas Chandra Bose.

List of key rating drivers and their detailed description

Strengths:

Established track record of operations and experienced promoter: VSDSM was established in 2007. The proprietor, Mr. K. Subhash Chandra Bose, has around two decades of experience in the cotton seed processing business. The firm has established relations with customers and suppliers.

Proximity to cotton growing areas: The manufacturing facility located at Guntur is in close proximity to cotton growing areas. The company procures cotton from local traders and cotton ginning companies.

Moderate financial risk profile: The moderate financial risk profile is marked by adjusted gearing of 1.90 times as on 31 March, 2016 and coverage indicators with interest coverage ratio of 1.68 times for FY2015-16. For arriving at the adjusted gearing, interest free unsecured loan of Rs.1.30 crore from promoters as on 31 March, 2016 has been considered as part of quasi equity (same is subordinated to bank debt).

Weaknesses:

Working capital intensive nature of operations: The operations are working capital intensive with gross current asset days (GCA) of 131 for FY2015-16 as against 98 for FY2014-15. This is mainly on account of the seasonal nature of procurement leading to high inventory of raw materials during the year end. However, the average cash credit limit utilisation is comfortable as the same stood at around 88 percent for the last six months ended 31 December, 2016.

Margins are susceptible to raw material price fluctuations and agro climatic risks: The main raw material - cotton seed is highly dependent on rainfall leading to volatility in raw material prices. Hence, the profitability of VSDSM is susceptible to variations in the prices of raw material.

Competition from established players: The industry is fragmented and competitive with large number of organised and unorganised players.

Analytical approach: SMERA has considered the standalone business and financial risk profiles of VSDSM.

Applicable Criteria

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

Outlook: Stable

SMERA believes that the outlook on VSDSM's rated facilities will remain stable over the medium term on account of its experienced management. The outlook may be revised to 'Positive' if the firm registers significant growth in revenue while also improving profitability and coverage indicators. Conversely, the outlook may be revised to 'Negative' if the firm fails to achieve scalability amidst intensifying competition in its area of operations or if the financial risk profile deteriorates owing to higher-than-expected increase in debt-funded working capital requirements. Any adverse change in government policies may also entail a 'Negative' outlook.

About the Rated Entity

VSDSM, established in 2007, is an Andhra Pradesh-based proprietorship concern engaged in the processing of cotton seeds into de-oiled cake, cotton seed oil, hull and others. The firm, promoted by Mr. K. Subhas Chandra Bose has an installed capacity of 150 tonnes per day and caters to Telangana, Maharashtra, Karnataka, Kerala and the northern India.

VSDSM reported net profit of Rs.0.22 crore on operating income of Rs.42.07 crore for FY2015-16 as compared to net profit of Rs.0.22 crore on operating income of Rs.37.07 crore for FY2014-15. Further, as informed by the management, VSDSM reported operating revenue of Rs.16.46 crore (provisional) from April, 2016 to November, 2016. The net worth stood at Rs.6.52 crore as on 31 March, 2016 as compared with Rs.5.90 crore in the previous year.

Status of non-cooperation with previous CRA (if applicable): Not Applicable

Any other information: Not Applicable

Rating History for the last three years:

Name of Instrument /Facilities	2017			2016		2015		2014	
	Scale	Amount (Rs. Crore)	Rating with Outlook	Date	Rating	Date	Rating	Date	Rating
Cash Credit	Long Term	6.50	SMERA BB-/Stable (Assigned)	-	-	-	-	-	-
Cash Credit (Proposed)	Long Term	3.50	SMERA BB-/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	N.A	N.A	N.A.	6.50	SMERA BB-/Stable (Assigned)
Cash Credit (Proposed)	N.A	N.A	N.A.	3.50	SMERA BB-/Stable (Assigned)

Note on complexity levels of the rated instrument:
<https://www.smerra.in/criteria-complexity-levels.htm>
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ABOUT SMERA

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