Press Release

Divi Enterprises

April 10, 2017

Rating Assigned

Total Bank Facilities Rated*	Rs. 18.00 Cr.
Long Term Rating	SMERA BB- / Outlook: Stable
Short Term Rating	SMERA A4

** Refer Annexure for details*

Rating Rationale

SMERA has assigned long-term rating of '**SMERA BB-' (read as SMERA BB minus)** and short term rating of **'SMERA A4' (read as SMERA A four)** on the Rs. 18.00 crore bank facilities of Divi Enterprises. The outlook is **'Stable'**.

Divi Enterprises (DE), established in 2009, is a Hyderabad-based proprietorship concern promoted by Mr. Chandiri Gopal Reddy. The firm is engaged in the trading of poultry feed supplements and additives and is an authorised distributor of nutritional solutions and additives of Addisseo Company and Trouw Nutrition International. The operations are spread across several states including Andhra Pradesh, Telangana, Karnataka and Kerala.

Key Rating Drivers

Strengths

- **Experienced management**
  Mr. Chandiri Gopal Reddy, the Proprietor has around two decades of experience in the trading of poultry feed.

- **Moderate financial risk profile**
  The financial risk profile is moderate marked by adjusted gearing of 1.60 times as on March 31, 2016 as compared to 0.94 times in the previous year. Further, interest coverage ratio stood at 1.41 times for FY2015-16 as compared to 1.40 times in the previous year. For arriving at the adjusted gearing, interest-free unsecured loan of Rs.5.26 cr as on March 31, 2016 from promoters has been considered as part of equity (same is subordinated to bank debt).

- **Improvement in operating income**
  DE reported operating income of Rs.60.84 cr for FY2015-16 as compared to Rs. 55.64 cr in the previous year. The growth in operating income is due to expansion of operations to other states like Maharashtra, West Bengal, Haryana, Punjab in FY2015. Initially, the operations were confined to the southern states. Further, as informed by the management, the firm reported operating income of Rs.59.00 cr (provisional) for FY2017 (9M).

- **Established association with reputed suppliers**
  DE is an authorised distributor for Trouw Nutrition and Adisseo, known to be among the reputed names in the nutritional solutions and additives business (animal feed). The firm has been associated with these companies for the last nine years.

Weaknesses

- **Working capital intensive operations**

The operations are working capital intensive reflected in the high gross current assets (GCA) of 186 days for FY2016 as against 130 days in FY2014-15. The high GCA days for FY2016 are mainly on account of stretched inventory of 50 days and receivables from customers at 118 days. Further, the average working capital utilisation stood at around 99 percent for the last six months ended 31st December, 2016.

- **Customer concentration risk**
  Around 30 percent revenue for FY2016 is derived from single customer i.e. Rohini Minerals Private Limited thereby exposing the firm to customer concentration risk.

- **Susceptibility of profitability to foreign exchange fluctuation risk**
  The firm imported around 79 percent of its total purchases for FY2015-16 from Dubai, USA, Netherlands and China. Hence, the profitability is vulnerable to fluctuations in foreign exchange rates in the absence of adequate hedging mechanism.

Analytical Approach

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

Outlook: Stable

SMERA believes that DE will maintain a stable outlook on account of its experienced promoter. The outlook may be revised to 'Positive' in case the firm achieves significant growth in revenue while maintaining adequate profitability and managing its working capital cycle efficiently. Conversely, the outlook may be revised to 'Negative' in case of decline in revenue, significant deterioration in liquidity or financial risk profile due to higher than expected working capital requirements.

About the Rated Entity - Key Financials

In FY2015-16, DE reported net profit of Rs 0.85 cr on operating income of Rs. 60.84 cr for FY2015-16 as compared to net profit of Rs. 0.61 cr on operating income of Rs. 49.55 cr for FY2014-15. DE's net worth stood at Rs.11.41 cr as on March 31, 2016 as compared with Rs. 10.59 cr as on March 31, 2015.

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

ICRA Limited, vide release dated December 21, 2016 has suspended its ratings on account of lack of adequate information required for monitoring of ratings.

Any other information

None

Applicable Criteria

- Default Recognition - https://www.smera.in/criteria-default.htm
- Complexity Level Of Financial Instruments - https://www.smera.in/criteria-complexity-levels.htm
- Trading Entities - https://www.smera.in/criteria-trading.htm

Note on complexity levels of the rated instrument

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

Rating History (Upto last three years)

Not Applicable

*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	3.00	SMERA BB- / Stable

Working capital demand loan (WCDL)	Not Applicable	Not Applicable	Not Applicable	12.00	SMERA BB- / Stable
Letter of credit	Not Applicable	Not Applicable	Not Applicable	3.00	SMERA A4

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ABOUT SMERA

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