

Press Release

Divi Enterprises

September 27, 2018



Rating Reaffirmed

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

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed the long-term rating of '**ACUITE BB-**' (**read as ACUITE double B minus**) and short-term rating of '**ACUITE A4**' (**read as ACUITE A four**) to the Rs. 18.00 crore bank facilities of Divi Enterprises (DE). The outlook is '**Stable**'.

The rating continues to draw comfort from the experienced management, improvement in revenue and moderate financial risk profile. The rating also factors the established association with reputed suppliers. However, the aforementioned strengths are partially offset by the working capital intensive nature of operations, customer concentration risk and susceptibility of the profitability to volatility in foreign exchange rate.

DE, established in 2009, is a Hyderabad-based proprietorship concern promoted by Mr. Chandiri Gopal Reddy. The concern is engaged in trading of poultry feed supplements and additives.

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of Divi Enterprises for arriving at the rating.

Key Rating Drivers:

Strengths

- **Established track record of operation and experienced promoter**

The concern has an established track record of operation of around a decade in the poultry feed trading business. This firm has maintained long standing relations with its customers and suppliers. Further, the Proprietor, Mr. Chandiri Gopal Reddy has around two decades of experience in the same line of business.

- **Improvement in revenue**

DE has reported significant growth in operating income as same stood at Rs.107.78 crore for FY2017-18 (Provisional) as against Rs.72.02 crore in the previous year. DE is an authorised distributor for Trouw Nutrition and Adisseo who are world leaders in nutritional solutions and additives for animal feed. DE is associated with these companies for the last nine years; thereby ensuring timely delivery and high quality of products. Further, growth in revenue can also be attributed to the addition in customers through expansion of operation in other states apart from the southern states. Further, as informed by management DE has reported operating income of around Rs.40.00 crore for the period during April, 2018 to August, 2018.

- **Moderate financial risk profile**

The financial risk profile of the DE continues to remain moderate marked by moderate adjusted tangible net worth, moderate gearing and average debt protection measures. The financial risk profile of the firm is moderate marked by adjusted tangible net worth of Rs.15.52 crore as on 31 March, 2018 (Provisional) as against Rs.11.98 crore in the previous year. For arriving at the adjusted tangible net worth, the unsecured loan of Rs.5.61 crore from related parties has been considered as part of equity as same is subordinated to bank debt. The concern has followed

marginally conservative debt policy wherein DE's adjusted debt to equity ratio stood at 0.95 times as on March 31, 2018 (Provisional) as against 1.30 times as on March 31, 2017. The debt protection measures are average as the Interest Coverage Ratio stood at 1.57 times in FY2018 (Provisional) as against 1.41 times in FY2017. The total outside liabilities to tangible net worth (TOL/TNW) stood at 1.53 times as on March 31, 2018 (Provisional) as against 1.58 times as on March 31, 2017. The net cash accruals to total debt (NCA/TD) stood at 0.09 times for FY2018 (Provisional) as against 0.07 times in the previous year. Acuité believes that the financial risk profile of the concern will continue to remain moderate on account of its stable operating margins and the absence of major debt funded capex plan.

Weaknesses

- **Working capital intensive nature of operations**

The operating cycle of the concern is stretched as the Gross Current Assets (GCA) stood at 127 days for FY2018 (Provisional) as against 137 days for FY2017. The stretched GCA days are on account of high debtor days at 108 for FY2018 (Provisional) as against 99 days in the previous year. The stretched debtor days can be attributed to high amount of sales reported during the month of March, 2018. Further, the liquidity position of the concern is stretched with average cash credit limit utilization of around 99 percent for the last six months ended as on 31 July, 2018.

- **Declining profitability alongwith its susceptibility of profitability to fluctuation in foreign exchange rate**

The operating margin of the concern declined from 4.95 percent in FY2017 to 3.18 percent in FY2018 (Provisional). The decline in operating margin was mainly due to inability of the concern to pass the increase in raw material prices to its customers. The decline in operating margin during FY2017-18 can also be attributed to the major discount allowed of Rs.1.26 crore to attract more customers. Further, the concern imported around 79 percent of its total purchases for FY2018 from countries including Dubai, United States of America, Netherlands and China. Hence, the profitability of the firm is vulnerable to fluctuation in foreign exchange rate in the absence of adequate hedging mechanism.

- **Highly regulated, fragmented and competitive industry**

The concern operates in animal feed industry which is highly regulated, fragmented and has presence of large unorganised players makes the industry competitive which is reflected in the thin profitability margin.

Outlook: Stable

Acuité believes that DE will maintain a 'Stable' business risk profile on account of its experienced promoter. The outlook may be revised to 'Positive' in case DE is able to achieve significant growth in revenue and maintaining adequate profitability while managing its operating capital cycle efficiently. The outlook may be revised to 'Negative' in case DE registers a decline in revenue or in case of significant deterioration in liquidity or financial risk profile due to higher than expected working capital requirements.

About the Rated Entity - Key Financials

	Unit	FY18 (Provisional)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	107.78	72.02	60.84
EBITDA	Rs. Cr.	3.43	3.57	3.51
PAT	Rs. Cr.	1.06	0.82	0.85
EBITDA Margin	(%)	3.18	4.95	5.77
PAT Margin	(%)	0.98	1.14	1.39
ROCE	(%)	11.41	11.73	13.37
Total Debt/Tangible Net Worth	Times	0.95	1.30	1.60
PBDIT/Interest	Times	1.57	1.41	1.41
Total Debt/PBDIT	Times	4.20	4.33	5.15
Gross Current Assets (Days)	Days	127	137	185

Status of non-cooperation with previous CRA:

Not Applicable

Any other information

Not Applicable

Applicable Criteria

- Trading Entities - <https://www.acuite.in/view-rating-criteria-6.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>
- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Date	Name of Instrument/ Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
04-May-2018	Cash Credit	Long Term	3.00	ACUITE BB- (Indicative)
	Working Capital Demand Loan	Long Term	12.00	ACUITE BB- (Indicative)
	Letter of Credit	Short Term	3.00	ACUITE A4 (Indicative)
10-Apr-2017	Cash Credit	Long Term	3.00	ACUITE BB-/Stable (Assigned)
	Working Capital Demand Loan	Long Term	12.00	ACUITE BB-/Stable (Assigned)
	Letter of Credit	Short Term	3.00	ACUITE A4 (Assigned)

***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	15.00 (Increased from Rs. 3.00 crore)	ACUITE BB-/ Stable (Reaffirmed)
Working Capital Demand Loan	Not Applicable	Not Applicable	Not Applicable	12.00	ACUITE BB-/ Stable (Withdrawn)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	3.00	ACUITE A4 (Reaffirmed)

Contacts

Analytical	Rating Desk
Aditya Gupta Head- Corporate and Infrastructure Sector Ratings Tel: 022-49294041 aditya.gupta@acuite.in	Varsha Bist Manager - Rating Desk Tel: 022-67141160 rating.desk@acuite.in
Shashikala Hegde Senior Analyst - Rating Operations Tel: 022-49294015 shashikala.hegde@acuiteratings.in	

About Acuité Ratings & Research:

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