



Rating Rationale

Deepak Agro (P) Ltd.

16 Nov 2018

Brickwork Ratings assigns the ratings for the Bank Loan Facilities of ₹. 13.65 Crores of Deepak Agro (P) Ltd..

Particulars

Facility	Amount (₹ Crs)	Tenure	Rating*
Fund based Cash Credit	13	Long Term	BWR BB- (Pronounced as Double B Minus) Outlook: Stable
Term Loan 1	0.20		
Term Loan 2	0.45		
Total	13.65	INR Thirteen Crores Sixty Five Lakhs Only	

*Please refer to BWR website www.brickworkratings.com/ for definition of the ratings

Rationale/Description of Key Rating Drivers/Rating sensitivities:

BWR has essentially relied upon the audited financial results of the firm upto FY18 and projected financials for FY19 and FY20, publicly available information and information/clarifications provided by the management.

The rating draws strength from extensive experience of promoters in the industry and proximity of manufacturing facility to rice growing areas.. The rating, however, is constrained by moderate scale of operations, stretched conversion cycle, below average financial risk profile, exposure to agro climatic risks and restrictions in importing countries.

Description of Key Rating Drivers

Credit Strengths:

Extensive experience of promoters in the industry: DAPL, incorporated in 1994, was promoted by Mr. Mahesh Chand Agnihotri, Mr. Ram Naresh Agnihotri and family. The promoters have decades of experience in rice manufacturing business. Their extensive experience has helped them to establish long term relationship with customers and suppliers.

Proximity to rice growing areas: The manufacturing facility of DAPL is located in Mainpuri, Uttar Pradesh, which offers proximity to raw material since the region has ample production of paddy.

Credit Risks:

Modest Scale of Operations: The operating income has not increased significantly. In FY17, the operating income was Rs. 42.02 Cr which increased only to Rs. 42.20 Cr. in FY18. Till Sep 2018, the company has achieved a sales of Rs. 26 Cr. (approx).

Stretched conversion cycle: The conversion cycle of the company is high at 202 days which is a result of high inventory holding period i.e. 222 days in FY18. The company has to hold inventory for longer period due to seasonal nature of the raw material. Aging of Basmati, which improves the quality of rice, is also one of the factors for holding inventory.

Below average financial risk profile: The company's financial risk profile is weak, marked by tangible net worth of Rs. 3.37 Cr. The gearing ratio is very high at 7.10 times in FY18 as against 5.05 times in FY17. The debt protection matrix is weak which is depicted by ISCR of 0.81 times and DSCR of 1.05 times in FY18. The Total Outside Liabilities/ Tangible Net Worth ratio also increased to 7.43 times in FY18 as against 6.26 times in FY17.

Exposure to Agro climatic risks: Paddy being an agricultural commodity is exposed to vagaries of monsoon and other agricultural risks such as disease outbreak, lower/higher-than-projected production level (which impact the supply and hence the price) and quality inconsistencies.

Import restrictions: Basmati rice is exported to various countries in the world. Import restrictions and price capping from countries like Iran, tightening of pesticides residual parameters from European Union and US sanctions on trade restrictions from other countries have affected the demand of basmati rice. Another evolving concerns is of Saudi Arabia following EU by tightening the pesticide residue parameters. However, there has not been any official notification regarding the guidelines yet.

Analytical Approach

For arriving at its ratings, BWR has applied its rating methodology as detailed in the Rating Criteria detailed below (hyperlinks provided at the end of this rationale).

Rating Outlook: Stable

BWR believes the **Deepak Agro (P) Ltd.** business risk profile will be maintained over the medium term. The 'Stable' outlook indicates a low likelihood of rating change over the medium term. The rating outlook may be revised to 'Positive' in case the revenues and profit show sustained improvement. The rating outlook may be revised to 'Negative' if the revenues go down and profit margins show lower than expected figures.

About the Company

Deepak Agro Pvt. Ltd. (DAPL), was incorporated in 1994. Promoted by Mr. Mahesh Chand Agnihotri and family, the company is engaged in processing of paddy at Mainpuri, Uttar Pradesh. The promoters have over two decades of experience in the rice industry.

Company's Financial Performance

The operating income has not increased significantly, as evidenced by the operating income which was Rs. 42.02 Cr in FY17, increased only to Rs. 42.20 Cr. in FY18. Till Sep 2018, the company has achieved a sales of Rs. 26 Cr. (approx). OPBDIT has increased from Rs. 0.75 Cr. in FY17 to Rs. 1.18 Cr in FY18. PAT has increased from Rs. 0.15 Cr. in FY17 to Rs. 0.17 Cr. in FY18. The current ratio increased from 1.61 times in FY17 to 1.83 times in FY18, which is an indicator of improvement in short term liquidity position of the company.

Key Financial Indicators

Key Parameters	Units	2018	2017
Result Type		Audited	Audited
Operating Revenue	₹ Cr	42.20	42.02
EBITDA	₹ Cr	1.18	0.75
PAT	₹ Cr	0.17	0.15
Tangible Net worth	₹ Cr	3.37	3.35
Total Debt/Tangible Net worth	Times	7.10	5.05
Current Ratio	Times	1.83	1.61



Rating History for the last three years

S.No	Instrument /Facility	Current Rating (Nov 2018)			Rating History		
		Type (Long Term/ Short Term)	Amount (₹ Crs)	Rating	2017	2016	2015
1	Fund based Cash Credit	Long Term	13	BWR BB- (Pronounced as Double B Minus) Outlook: Stable	N/A		
2	Term Loan 1		0.20				
3	Term Loan 2		0.45				
	Total		13.65		₹ Thirteen Crores Sixty Five Lakhs Only		

Hyperlink/Reference to applicable Criteria

- [General Criteria](#)
- [Approach to Financial Ratios](#)
- [Short Term Debt](#)

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Note on complexity levels of the rated instrument:

BWR complexity levels are meant for educating investors. The BWR complexity levels are available at www.brickworkratings.com/download/ComplexityLevels.pdf Investors queries can be sent to info@brickworkratings.com.

About Brickwork Ratings

Brickwork Ratings (BWR), a SEBI registered Credit Rating Agency, accredited by RBI and empaneled by NSIC, offers Bank Loan, NCD, Commercial Paper, MSME ratings and grading services. NABARD has empaneled Brickwork for MFI and NGO grading. BWR is accredited by IREDA & the Ministry of New and Renewable Energy (MNRE), Government of India. Brickwork Ratings has Canara Bank, a leading public sector bank, as its promoter and strategic partner.

BWR has its corporate office in Bengaluru and a country-wide presence with its offices in Ahmedabad, Chandigarh, Chennai, Hyderabad, Kolkata, Mumbai and New Delhi along with representatives in 150+ locations.

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