



## Rating Rationale

### Desai Farm Equipment

7 Feb 2018

**Brickwork Ratings assigns BWR B+/A4 for the Bank Loan Facilities of Rs. 6.00 Cr of Desai Farm Equipment ('DFE' or 'the Firm')**

#### Particulars

| Facility *                              | Amount(Rs.Cr)                      | Tenure     | Rating^  |
|---|------------------------------------|------------|--|
| <b>Fund Based</b><br>Cash Credit        | 4.50                               | Long Term  | <b>BWR B+</b><br>(Pronounced as BWR Single B Plus)<br><b>Outlook: Stable</b> |
| <b>Non-Fund Based</b><br>Bank Guarantee | 1.50                               | Short Term | <b>BWR A4</b><br>(Pronounced as BWR A Four)                                  |
| <b>Total</b>                            | <b>6.00 (INR Six Crores Only )</b> |            |  |

^ Please refer to BWR website [www.brickworkratings.com/](http://www.brickworkratings.com/) for definition of the ratings

\*Annexure-I provides details of bank wise facilities

#### Rationale/Description of Key Rating Drivers/Rating sensitivities:

BWR has essentially relied upon the audited financial results of the Firm upto FY17, projected financials upto FY19, publicly available information and information/clarifications provided by the firm.

The ratings draw strength from the experienced partners and long track record of the firm. The rating, however, is constrained by the below average credit risk profile marked small scale of business operations, low capital and thin profitability, and presence in an intensely competitive industry and vulnerability to agro-climatic condition.

Going forward, the ability of the Firm to increase its scale of operations, improve its overall credit profile and manage its working capital efficiently would be the key rating sensitivities.

#### 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).

#### Key Rating drivers

##### Credit strengths

- **Experienced partners and long track record of the firm**

DFE is in tractor dealership business since 1977 and the partners of the firm have gained rich experience of more than four decades in tractor dealership business.

##### Credit Weaknesses

- **Below average financial risk profile marked by small scale of operations, low capital and thin profitability**

Due to geographic concentration of business operations in Karnataka, the scale of operations of DFE

7 Feb 2018



has remained low with its total operating income at Rs.17.11 Crs for FY17 as against Rs.15.94 Crs in FY16. As on March 31, 2017, the partner's capital was low at Rs. 3.70 Crs. Due to trading nature of the business, the operating profit margin of the Firm for FY17 was low at 6.22% *vis-à-vis* 5.62% for FY16. Overall gearing remained moderate at 1.54 times as on March 31, 2017. ISCR was also moderate at 1.25 times as against 1.34 times for FY16.

- **Presence in an intensely competitive industry and vulnerability to agro-climatic conditions**  
DFE faces stiff competition from various other tractor dealers of TAFE Ltd. and other OEMs in the market. Further, the tractor industry's performance is dependent on monsoon and climatic conditions.

#### Rating Outlook: Stable

BWR believes DFE's 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 margins show sustained improvement. The rating outlook may be revised to 'Negative' if the revenues go down and margins show lower than expected figures.

#### Background:

Desai Farm Equipment (DFE) is a partnership firm established 1977 and is an authorised dealer of tractors manufactured by TAFE Ltd. DFE was promoted by its seven partners who are in the business of dealership of tractors and agri implements since 1977. DFE has two 3S showrooms in Sindhanur and Raichur towns of Karnataka. DFE has two sister concerns in the name of 'Desai and Company' (Rated BWR BB-/A4, Outlook:Stable) and 'Desai and Company, Vijayapur' who are engaged in a similar line of business.

#### Financial Performance

During FY17, DFE reported total operating income of Rs.17.11 Crs and PAT of Rs.0.23 Crs as against the operating income of Rs.15.94 Crs and PAT of Rs.0.23 Crs in FY16. Current ratio stood at 1.25 times as on March 31, 2017.

Key financial indicators are furnished in Annexure II.

#### Rating History for the last three years:

| Sl. No. | Instrument/Facility                     | Current Rating (February 2018) |                  |                              | Rating History             |      |      |
|---------|---|--------------------------------|------------------|------------------------------|----------------------------|------|------|
|         |   | Type                           | Amount (Rs. Crs) | Rating                       | 2017                       | 2016 | 2015 |
| 1       | <b>Fund Based</b><br>Cash Credit        | Long Term                      | 4.50             | BWR B+<br>(Outlook : Stable) | N/A                        | N/A  | N/A  |
| 2       | <b>Non-Fund Based</b><br>Bank Guarantee | Short Term                     | 1.50             | BWR A4                       | N/A                        | N/A  | N/A  |
|         | <b>Total</b>                            |                                | <b>6.00</b>      |                              | <b>INR Six Crores only</b> |      |      |



Status of Non cooperation with other CRA : Not Applicable

Any other information : Not applicable.

Hyperlink/Reference to applicable Criteria

- [General Criteria](#)
- [Services Sector](#)
- [Approach to Financial Ratios](#)

| Analytical Contacts   | Media  |
|---|--|
| <i>Rajee R</i><br><i>General Manager- Ratings</i><br><a href="mailto:analyst@brickworkratings.com">analyst@brickworkratings.com</a> | <a href="mailto:media@brickworkratings.com">media@brickworkratings.com</a> |
|   | <b>Relationship Contact</b>  |
|   | <a href="mailto:bd@brickworkratings.com">bd@brickworkratings.com</a>       |
| <b>Phone: 1-860-425-2742</b>  |  |

**Desai Farm Equipment**  
**Annexure I**  
**Details of Rated Bank Facilities**

| Bank                                      | Facilities     | Rated Amount<br>(Rs Crs) |
|---|----------------|--------------------------|
| Vijaya Bank,<br>Raichur Branch, Karnataka | Cash Credit    | 4.50                     |
|   | Bank Guarantee | 1.50                     |
|   | <b>Total</b>   | <b>6.00</b>              |

**Annexure II**  
**Key Financial Indicators**

| Particulars                            | FY16  | FY17  |
|--|-------|-------|
| <b>Total Operating Income</b> (Rs. Cr) | 15.94 | 17.11 |
| <b>EBITDA</b> (Rs. Cr)                 | 0.90  | 1.06  |
| <b>PAT</b> (Rs. Cr)                    | 0.23  | 0.23  |
| <b>Partner's Capital (PC)</b> (Rs. Cr) | 3.48  | 3.70  |
| <b>Total Debt:PC</b> (Times)           | 1.54  | 1.54  |
| <b>Current Ratio</b> (Times)           | 1.60  | 1.25  |

7 Feb 2018



### **For print and digital media**

The Rating Rationale is sent to you for the sole purpose of dissemination through your print, digital or electronic media. While it may be used by you acknowledging credit to BWR, please do not change the wordings in the rationale to avoid conveying a meaning different from what was intended by BWR. BWR alone has the sole right of sharing (both direct and indirect) its rationales for consideration or otherwise through any print or electronic or digital media.

### **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](http://www.brickworkratings.com/download/ComplexityLevels.pdf) Investors queries can be sent to [info@brickworkratings.com](mailto:info@brickworkratings.com).

### **About Brickwork Ratings**

Brickwork Ratings (BWR), a SEBI registered Credit Rating Agency, has also been 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 Nationalized 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, Guwahati, Hyderabad, Kolkata, Mumbai and New Delhi along with representatives in 150+ locations. BWR has rated debt instruments/bonds/bank loans, securitized paper of over ₹ 9,30,000 Cr. In addition, BWR has rated about 5000 MSMEs. Also, Fixed Deposits and Commercial Papers etc. worth over ₹19,700 Cr have been rated. Brickwork has a major presence in rating of nearly 100 cities.

### **DISCLAIMER**

Brickwork Ratings (BWR) has assigned the rating based on the information obtained from the issuer and other reliable sources, which are deemed to be accurate. BWR has taken considerable steps to avoid any data distortion; however, it does not examine the precision or completeness of the information obtained. And hence, the information in this report is presented “as is” without any express or implied warranty of any kind. BWR does not make any representation in respect to the truth or accuracy of any such information. The rating assigned by BWR should be treated as an opinion rather than a recommendation to buy, sell or hold the rated instrument and BWR shall not be liable for any losses incurred by users from any use of this report or its contents. BWR has the right to change, suspend or withdraw the ratings at any time for any reasons.