

Press Release

Dhanterash Sales Private Limited (DSPL)

23 January, 2017

Rating Reaffirmed

Total Bank Facilities Rated*	Rs.15.00 Cr
Long Term Rating	SMERA BB/Stable (Reaffirmed)
Short Term Rating	SMERA A4+ (Reaffirmed)

*Refer Annexure for details

Rating Rationale

SMERA has reaffirmed the long term rating of '**SMERA BB**' (**read as SMERA double B**) and short term rating of '**SMERA A4+**' (**read as SMERA A four plus**) on the Rs.15.00 crore bank facilities of Dhanterash Sales Private Limited (DSPL). The outlook is '**Stable**'.

DSPL is part of the Wearit Group that has business interests in tea, textiles and power. The company is engaged in the trading of export seconds and process scrap (cotton and synthetic yarns). The group is headed by Mr. Manish Kumar, Managing Director.

List of key rating drivers and their detailed description

Strengths:

Experienced management: DSPL was established in 2009. The management has more than two decades of experience in the textile industry. The company enjoys support and corporate guarantee from Wearit Global Limited (rated SMERA BB+/Stable/A4+).

Average financial risk profile: The average financial risk profile is marked by moderate gearing of 1.07 times, moderate interest coverage of 1.01 times and low Net Cash Accruals to Total Debt of 0.02 times in FY2016. The Debt Service Coverage Ratio is at 1.08 times in FY2016.

Weaknesses:

Thin profit margins: The Net profit margin of the company has been at a low of 0.28 percent in FY2016 as compared to 0.26 percent in FY2015. The EBITDA margins declined from 3.56 per cent in FY2015 to 3.41 per cent in FY2016. The trading nature of operations has lead to lower margin which has further deteriorated due to rise in material costs.

Working capital intensive operations: The operations are working capital intensive marked by high gross current asset days (GCA) of 153 in FY2016 mainly due to inventory holding period of around two months. Besides, the bank limit utilisation has been 100 per cent (Cash Credit facility) during the last six months ended October 2016.

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

Applicable Criteria

- Trading entities- <https://www.smerra.in/criteria-trading.htm>
- Application of Financial Ratios and Adjustments: <https://www.smerra.in/criteria-fin-ratios.htm>
- Default Recognition: <https://www.smerra.in/criteria-default.htm>

Outlook: Stable

SMERA believes that the outlook on DSPL's facilities will remain stable over the medium term owing to its experienced management. The outlook may be revised to 'Positive' in case DSPL registers significant increment in profitability while maintaining comfortable liquidity position. Conversely, the outlook may be revised to 'Negative' in case of decline in profitability and stretched working capital cycle.

About the rated entity

Part of the Wearit group, DSPL incorporated in 2009, is engaged in the trading of export seconds and process scrap (cotton and synthetic yarns). The company was promoted by Mr. Manish Kumar. It mainly procures material from WGL and sells to local manufacturers.

For FY2015-16, the company reported PAT of Rs.0.81 crore on operating income of Rs.64.41 crore as compared to PAT of Rs.0.17 crore on total operating income of Rs.64.15 crore in FY2014-15.

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	LT	10.00	SMERA BB/Stable (Reaffirmed)	-	-	30 Nov	SMERA BB/Stable (Assigned)	-	-
Letter of Credit	ST	5.00	SMERA A4+ (Reaffirmed)	-	-	30 Nov	SMERA A4+ (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	10.00	SMERA BB/Stable (Reaffirmed)
Letter of Credit	N.A	N.A	N.A	5.00	SMERA A4+ (Reaffirmed)

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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