

### Dhruv Cotfab Private Limited: Assigned

Facilities	Amount (Rs. Crore)	Rating/Outlook
Cash Credit	25.00	SMERA B/Stable (Assigned)
Term Loan	1.50	SMERA B/Stable (Assigned)

SMERA has assigned rating of '**SMERA B**' (read as **SMERA B**) to the Rs.26.50 crore bank facilities of Dhruv Cotfab Private Limited (DCPL). The outlook is '**Stable**'.

The rating derives comfort from the experienced management, healthy revenue growth and proximity to raw material sources. However, the rating is constrained by the below average financial risk profile and thin profit margins. The rating also factors in the highly fragmented cotton ginning industry, volatility in raw material prices and changing government regulations.

DCPL is engaged in cotton ginning since 2000. The company benefits from its experienced management. Mr. Dhruv Suresh Kumar Jani, Mr. Suresh Kumar Babulal Jani, Mrs. SuchetaDhruv Kumar Jani and Mr. Kuldeep Amrutbhai possess over two decades of experience in the textile industry.

The revenue of DCPL grew at a compounded annual growth rate (CAGR) of 33.49 per cent from FY2013-14 to FY2015-16. The operating income increased to Rs.60.01 crore in FY2016 as compared to Rs.25.02 crore in FY2014. The ginning unit is located at Gujarat with close proximity to raw material source.

The company's financial risk profile is below average marked by high gearing of 2.67 times as on 31 March, 2016 (1.86 times as on 31 March 2015) and weak debt protection metrics as seen from interest coverage ratio of 1.38 times for FY2016 as against 1.56 times for FY2015. DCPL's profit margins are susceptible to raw material price fluctuations. The operating margins have shown uneven trend in the past. In FY2014, the EBITDA stood at 1.97 per cent and rose to 3.24 per cent in FY2015 declining to 3.14 per cent in FY2016. The PAT margin was 0.10 per cent in FY2015 which fell to 0.13 per cent in FY2016.

DCPL operates in a highly fragmented textile industry. Besides, cotton prices are highly regulated by the government through MSP (Minimum Support Price). Any adverse movement of cotton prices further impacts the profitability of the company.

#### Rating Sensitivity Factors

- Volatility in raw material prices impacting profitability
- Sustainable and substantial growth in revenues with improvement in profitability
- Improvement in the financial risk profile

#### Outlook-Stable

SMERA believes that DCPL will continue to benefit over the medium term from its established presence in the fabric industry and experienced management. The outlook may be revised to 'Positive' if the scale of operations increases substantially while also improving operating profitability and financial risk indicators. Conversely, the outlook may be revised to 'Negative' if the profit margins decline in the medium term due to fluctuations in raw material prices and deterioration in the financial risk profile.

### Criteria to arrive at the rating

- Manufacturing Entities

### About the Company

The Gujarat-based DCPL, incorporated in 2000 by Mr. Dhruv Suresh Kumar Jani and others is engaged in the manufacture (Ginning and pressing) of cotton bales. The company has an installed capacity of 85,000 metric tonnes per annum.

In FY2015-16, the company reported PAT (profit after tax) of Rs.0.08 crore on operating income of Rs.60.01 crore as against PAT of Rs.0.06 crore on operating income of Rs.61.40 crore in the previous year.

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