

Dulichand Industries: Assigned

Facilities	Amount (Rs. Crore)	Ratings/Outlook
Cash Credit	2.00	SMERA B+/Stable (Assigned)
Foreign Letter of Credit	20.00	SMERA A4 (Assigned)

SMERA has assigned long term rating of '**SMERA B+**' (read as **SMERA B plus**) and short term rating of '**SMERA A4**' (read as **SMERA A four**) on the Rs.22.00 crore bank facilities of Dulichand Industries (DI). The outlook is '**Stable**'. The ratings are constrained by the declining revenue trend, low profit margins, and susceptibility of profit margins to volatility in raw materials. However, the ratings draw support from the experienced management and long track record of operations.

DI has been operating at a modest level of Rs.54.07 crore in FY2016, a decline of Rs.11.93 per cent from 61.40 crore in the previous year and Rs.71.62 in FY2014. The declining trend is on account of the fluctuating edible oil market in Hyderabad. The turnover till Aug 2016 has been Rs.22.44 crore. The edible oil market is characterised by thin margin due to low value additive nature and intense competition. In FY2015, the operating margin stood at 1.52 per cent as against 1.75 per cent in FY2014. The decline in operating margin was mainly on account of increase in raw material cost. However, operating margins have improved as reflected in provisional FY2016 financials at 1.79 per cent on account of decline in raw material prices. DI has thin net profit margin of 0.35 per cent in FY2015 against 0.31 per cent in FY2014. The provisional net margins stand at 0.51 percent in FY2016.

The margins are also exposed to volatility in raw material prices arising from changes in demand for crude and edible oil as also changes in government policies from time to time.

However, DI was established in 1990 as a partnership firm by the Agarwal family. The partners Mr. Gajanand Agarwal and Mr. Anand Agarwal have more than two decades of experience in oil refining.

Rating Sensitivity Factors

- Improvement in scale of operations
- Sustenance of profit margins
- Improvement in capital structure

Outlook-Stable

SMERA believes that the outlook on DI will remain stable over the medium term on account of its experienced management and long track record of operations. The outlook may be revised to 'Positive' if the firm registers more than expected revenues while improving profit margins and achieving better capital structure. Conversely, the outlook may be revised to 'Negative' in case of further decline in the profit margins or significant deterioration in the capital structure.

Criteria applied to arrive at the ratings:

- Manufacturing entities

About the Company

The Hyderabad-based Dulichand Industries was established by Mr. Gajanand Agarwal and Mr. Anand Agarwal in 1990. The firm is engaged in the manufacture of sunflower and cotton seed refined oil at Gagan Pahad, Hyderabad. The manufacturing capacity stands at 2000 MT per month.

For FY2015-16 (Provisional), DI reported profit after tax (PAT) of Rs.0.28 crore on total operating income of Rs.54.07 crore as compared with profit after tax (PAT) of Rs.0.22 crore on total operating income of Rs.61.42 crore in FY2014-15.

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ABOUT SMERA

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