

Press Release

Darshan Plastic

July 20, 2017



Rating Assigned

Total Bank Facilities Rated*	Rs. 7.50 Cr.
Long Term Rating	SMERA B+ / Outlook: Stable

* Refer Annexure for details

Rating Rationale

SMERA has assigned long-term rating of '**SMERA B+**' (read as **SMERA B plus**) on the Rs. 7.50 crore bank facilities of Darshan Plastic. The outlook is '**Stable**'.

Darshan Plastic (DP) is a Mumbai-based proprietorship concern established in 2005 by Mr. Paresh P. Shah. The firm is engaged in the trading of plastic granules and has two warehouses in Umar Goan, Bhiwandi. The firm caters to manufacturers of plastic bags, covers, disposables polythene covers, furniture among others.

Key Rating Drivers

Strengths

- **Established track record of operations and experienced management**

The day-to-day operations are led by Mr. Paresh P. Shah who possesses experience of over two decades in the plastics industry.

- **Growth in revenues**

The firm has reported operating income of Rs. 38.83 crore in FY2017 as against Rs. 35.35 crore in FY2016 and Rs. 26.32 crore in FY2015. The increase in revenue is mainly on account of expansion of the customer base.

Weaknesses

- **Risk of capital withdrawal**

The proprietorship constitution of the firm makes it vulnerable to the risk of capital withdrawal.

- **Low profitability**

The firm has low profitability with operating margin of 3.89 per cent in FY2017 as against 3.51 per cent in FY2016 and 3.82 per cent in FY2015 on account of the trading nature of operations. The net profit margin stood at 0.71 percent in FY2017 and 0.73 percent in FY2016.

- **Below average financial risk profile**

The financial risk profile is moderate marked by net worth of Rs.3.91 crore as on 31 March, 2017 as against Rs.1.62 crore as on 31 March, 2016. The gearing (debt to equity ratio) stood at 2.02 times as on 31 March, 2017 compared to 5.22 in the previous year. The interest coverage ratio (ICR) stood at 1.28 times in FY2016-17 as against 1.35 times in FY2015-16. The coverage indicators are expected to remain under pressure due to relatively high debt obligation.

- **Working capital intensive operations**

DP has stretched liquidity reflected in the relatively high gross current assets (GCA) of 163 days in FY2017 as against 140 days in FY2016. The high GCA emanates from the debtors of 134 days in FY2017 as against 129 days in FY2016. The average working capital limit utilisation stood at ~83 per

cent in the last six months ended May, 2017.

• Intense competition

The concern faces intense competition in the plastic industry from various players in India, which is likely to have an impact on its operating performance and profitability.

Analytical Approach

SMERA has considered the standalone financial and business risk profile of DP to arrive at the rating.

Outlook: Stable

SMERA believes that DP will maintain a stable outlook over the medium term on account of its experienced management. The outlook may be revised to 'Positive' if the firm improves its working capital cycle, financial risk profile and increases its scale of operations while maintaining profitability. Conversely, the outlook may be revised to 'Negative' in case of fall in revenue, profitability or if the financial risk profile weakens. Any elongation in working capital cycle affecting the financial risk profile may also entail a 'Negative' outlook.

About the Rated Entity - Key Financials

For FY2017, Darshan Plastic reported Profit after Tax (PAT) of Rs.0.27 crore on total operating income of Rs.38.83 crore compared to PAT of Rs 0.26 crore on total operating income of Rs.35.35 crore in FY2016. The tangible net worth stood at Rs. 3.91 crore as on 31 March, 2017 as against Rs. 1.62 crore in the previous year.

Status of non-cooperation with previous CRA (if applicable)

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.smera.in/criteria-default.htm>
- Financial Ratios And Adjustments - <https://www.smera.in/criteria-fin-ratios.htm>
- Trading Entities - <https://www.smera.in/criteria-trading.htm>

Note on complexity levels of the rated instrument

<https://www.smera.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Not Applicable

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	6.00	SMERA B+ / Stable
Proposed Long Term Loan	Not Applicable	Not Applicable	Not Applicable	1.50	SMERA B+ / Stable

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