

Press Release

Dhawan Trading Company (DTC)

25 September, 2017

Rating Assigned



Total Bank Facilities Rated*	Rs.50.00 Cr
Long Term Rating	SMERA B+/Stable (Assigned)

*Refer Annexure for details

Rating Rationale

SMERA has assigned long-term rating of '**SMERA B+ (read as SMERA B plus)**' on the Rs.50.00 crore bank facilities of Dhawan Trading Company (DTC). The outlook is '**Stable**'.

Dhawan Trading Company (DTC) is a Delhi-based proprietorship concern established in 1996 by Mr. Jaspal Malhotra. The firm is engaged in the trading of rice and paddy. The firm procures paddy from the local market and supplies the same to rice millers in the nearby states.

List of key rating drivers and their detailed description:

Strengths:

Experienced management and long track record of operations: DTC has a long track of 21 years in the rice industry. The promoter, Mr. Jaspal Malhotra has extensive experience of two decades in the business which has helped him establish long term relations with customers.

Reputed customer base: DTC derives support from its reputed clientele such as Kohinoor Foods Ltd., L T Foods Limited, Chaman Lal Setia Exports Ltd. to name a few.

Weaknesses:

Weak financial risk profile: The weak financial risk profile is marked by low networth, high gearing and low debt protection metrics. The net worth base is low at Rs.10.55 crore as on 31 March, 2017 compared to Rs.0.93 crore as on 31 March, 2016. The networth includes unsecured loans of Rs.4.53 crore in FY2017 as against Rs.4.01 crore in FY2016 from promoters which are subordinated to bank debt. Hence, SMERA has treated them as quasi equity. The gearing stands high at 2.68 times as on 31 March, 2017 compared to 0.56 times as on 31 March, 2016. The high gearing is on account of low networth of Rs.10.55 crore as against total debt of Rs.28.31 crore in FY2016-17. The total debt includes working capital limit of ~ Rs 28.31 crore. The interest coverage ratio stood low at 1.08 times in FY2016-17 against 3.32 times in FY2015-16. The net cash accrual to total debt includes (NCA/TD) of Rs.0.01 times in FY2017 compared to 0.03 times in FY2016.

Intense competition: The firm operates in a highly fragmented industry with limited entry barriers wherein the presence of large number of players in the unorganised sector limits its bargaining power with customers.

Analytical approach: SMERA has considered the standalone business and financial risk profile of the firm.

Applicable Criteria

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

Outlook: Stable

SMERA believes that the firm will maintain a stable outlook in the medium term owing to the management's extensive experience in the trading of rice. The outlook may be revised to 'Positive' if the firm achieves higher than the projected growth in revenues and improvement in financial risk profile. Conversely, the outlook may be revised to 'Negative' in case of significant deterioration in the financial risk profile due to debt-funded capital expenditure.

About the Rated Entity – Key Financials

For FY2016-17, DTC reported PAT of Rs.0.14 crore on operating income of Rs.72.29 crore as compared with PAT of Rs.0.07 crore on operating income of Rs.77.82 crore for FY2015-16. The net worth stood at Rs.10.55 crore as on 31 March, 2017 compared to Rs.4.94 crore a year earlier. The net worth of Rs.10.55 crore in FY2017 includes quasi equity of Rs.4.53 crore.

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	FY2018			FY2017		FY2016		FY2015	
	Scale	Amount (Rs. Crore)	Rating with Outlook	Date	Rating	Date	Rating	Date	Rating
Cash Credit	LT	7.00	SMERA B+/Stable (Assigned)	-	-	-	-	-	-
Warehouse Receipt	LT	23.00	SMERA B+/Stable (Assigned)	-	-	-	-	-	-
Proposed Bank Facility	LT	20.00	SMERA B+/Stable (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	7.00	SMERA B+/Stable (Assigned)
Warehouse Receipt	N.A	N.A	N.A	23.00	SMERA B+/Stable (Assigned)
Proposed Bank Facility	N.A	N.A	N.A	20.00	SMERA B+/Stable (Assigned)

Note on complexity levels of the rated instrument:

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

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ABOUT SMERA

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