

Press Release

DHANLAXMI COTEX

27 December, 2017



Rating Assigned

Total Bank Facilities Rated*	Rs. 8.80 Cr
Long Term Rating	SMERA B/ Stable

SMERA has assigned long term rating of '**SMERA B**' (read as **SMERA B**) on the above mentioned facility of Dhanlaxmi Cotex. The outlook is '**Stable**'.

Dhanlaxmi Cotex (DC) was established in 2013 as a partnership firm by Mr. Piyush Patel and family. The firm is engaged in the ginning, pressing and processing of cotton bales and seeds at Kadi, Gujarat. The installed capacity stands at 150 cotton bales per day.

Key Rating Drivers

Strengths

- **Experienced management**

The promoter, Mr. Piyush Patel has experience of six years in the aforementioned line of business.

- **Moderate working capital cycle**

DC has moderate working capital cycle marked by Gross Current Assets (GCA) days of 106 in FY2017 as against 314 in FY2016. The GCA days improved due to decline in inventory to 86 days in FY2017 from 236 days in FY2016. SMERA believes that efficient working capital management will be crucial for the firm to maintain a stable credit profile.

Weaknesses

- **Limited track record of operations**

DC operates in a highly competitive cotton industry. The operations are working capital intensive and the financial risk profile is below average. However, the firm benefits from its promoter's experience and proximity to Gujarat's cotton-growing belt.

- **Weak financial risk profile**

DC has a weak financial risk profile marked by low net worth, high gearing and moderate debt protection metrics. The tangible net worth stood at Rs.1.86 crore as on 31 March, 2017. The gearing stood high at 3.55 times in FY2017 compared to 4.14 times in FY2016. The debt of Rs.6.62 crore mainly comprises long term debt of Rs. 1.61 crore and Cash Credit of Rs. 5.01 crore as on 31 March 2017. The Interest Coverage Ratio (ICR) stood at 1.05 times while the Debt Service Coverage Ratio (DSCR) stood at 0.69 times for FY2017. The net current assets to total debt (NCA/TD) stood at 0.10 times as on 31 March, 2017. The firm is currently unable to meet its long term debt obligations owing to a weak liquidity resulting from insufficient cash accruals.

- **Low profitability**

The profitability is low marked by operating margin of 2.71 percent and Profit After Tax (PAT) margin of 0.14 percent for FY2017 as against operating margin of 6.79 percent and PAT margin of 0.35 percent for FY2016.

Analytical Approach

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

Outlook: Stable

SMERA believes that DC will maintain a Stable outlook in the medium term on account of its promoter's extensive experience. The outlook may be revised to 'Positive' in case of an improvement in the tangible net worth, which would be by infusion of capital and retention of profits. Conversely, the outlook may be revised to 'Negative' in case of a sharp decline in profitability margins or significant deterioration in the financial risk profile due to high dependence on external funds.

About the Rated Entity - Key Financials

Particulars	Unit	FY17(Actual)	FY16(Actual)	FY15(Actual)
Operating Income	Rs. Cr.	27.36	7.59	25.29
EBITDA	Rs. Cr.	0.74	0.52	0.72
PAT	Rs. Cr.	0.04	0.03	0.05
EBITDA Margin	(%)	2.71	6.79	2.85
PAT Margin	(%)	0.14	0.35	0.22
ROCE (%)	(%)	9.19	6.90	10.51
Total Debt/Tangible Net Worth	Times	4.94	4.28	5.34
PBDIT/Interest	Times	1.05	1.04	1.58
Total Debt/PBDIT	Times	8.93	14.64	11.71
Gross Current Assets (Days)	Days	106	314	104

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

CRISIL Ratings in its press release dated September 28, 2017 inter alia has stated the following: Despite repeated attempts to engage with the management, CRISIL failed to receive any information on either the financial performance or strategic intent of Dhanlaxmi Cotex. This restricts CRISIL's ability to take a forward Dhanlaxmi Cotex is consistent with 'Scenario 1' outlined in the 'Framework for Assessing Consistency of Information with CRISIL BB rating category or lower. Based on the last available information, CRISIL has reaffirmed the rating at 'CRISIL D'.

Any other information

None

Applicable Criteria

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

Note on complexity levels of the rated instrument:

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

Rating History (Upto last three years)

None

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	Not Applicable	Not Applicable	Not Available	8.00	SMERA B/Stable
Term Loan	Not Applicable	Not Applicable	Not Available	0.69	SMERA B/Stable
Term Loan	Not Applicable	Not Applicable	Not Available	0.11	SMERA B/Stable

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ABOUT SMERA

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