

Press Release

DHANA LAXMI COTTON INDUSTRIES

09 January, 2018



Rating Assigned

Total Bank Facilities Rated*	Rs. 12.00 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) on the Rs. 12.00 crore bank facilities of DHANA LAXMI COTTON INDUSTRIES. The outlook is '**Stable**'.

Dhana Laxmi Cotton Industries (DLCI) was established in 2013 by Mr. Y Harishankar, Mr. Y Krishna Murthi, Mr.Y Ramana and Mr. C H Padma. The company is engaged in the ginning, pressing and processing of cotton bales as also lint with installed capacity of 5400 MTPA. The manufacturing unit is located at Parkal, Telangana. The day-to-day operations are led by Mr. Y Harishankar, Mr. Y Krishna Murthi, Mr.Y Ramana and Mr.CH Padma.

Key Rating Drivers

Strengths

- **Experienced management**

The Partners, Mr. Y Harishankar, Mr. Y Krishna Murthi, Mr.Y Ramana and Mr. CH Padma have more than a decades experience in the textile industry.

- **Moderate scale of operations**

The revenue of the company stood moderate at Rs. 92.31 crore in FY2017 compared to Rs.65.90 crore in FY2016. As informed by the management, the company booked Rs.36 crore till October 2017.

Weaknesses

- **Average financial risk profile**

The average financial risk profile is marked by low networth of Rs.3.73 crore in FY2017 which increased from Rs 3.25 crore in FY2016, mainly on account of addition of capital and retention of current year profit. The gearing stood high at 3.33 times as on 31 March, 2017, an increase from 3.03 times in FY2016, mainly due to increase in short term debt. The Interest Coverage Ratio stood at a moderate 1.37 times for FY2017. The Debt Service Coverage Ratio (DSCR) stood at 1.04 times in FY2016.

- **Low profitability**

The operating margin declined to a low of 1.84 per cent in FY2017 compared to 2.36 per cent in FY2016, due to increase in raw material prices. The PAT margin stood at 0.12 per cent in FY2017 and FY2016.

- **Highly fragmented cotton ginning industry**

DLCI operates in a highly fragmented industry with large number of unorganised players resulting in low bargaining power with customers, suppliers. Besides, there's limited value addition in the cotton ginning process resulting in the company operating at thin profitability.

Analytical Approach

SMERA has taken a standalone view of the business and financial risk profiles of the entity.

Outlook: Stable

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

About the Rated Entity - Key Financials

	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	92.31	65.90	38.82
EBITDA	Rs. Cr.	1.70	1.56	1.37
PAT	Rs. Cr.	0.11	0.08	0.04
EBITDA Margin	(%)	1.84	2.36	3.54
PAT Margin	(%)	0.12	0.12	0.10
ROCE	(%)	9.53	9.53	19.41
Total Debt/Tangible Net Worth	Times	3.33	3.03	3.18
PBDIT/Interest	Times	1.37	1.42	1.48
Total Debt/PBDIT	Times	7.08	6.33	5.48
Gross Current Assets (Days)	Days	78	73	118

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

NA

Any other information

NA

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)

Not Applicable

*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 Applicable	8.00	SMERA B / Stable
Term loans	Not Applicable	Not Applicable	Not Applicable	1.50	SMERA B / Stable
Proposed Cash Credit	Not Applicable	Not Applicable	Not Applicable	2.50	SMERA B / Stable

Contacts

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ABOUT SMERA

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