

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

SMERA Ratings Limited

Registered Office: 102, Sumer Plaza, Marol Maroshi Road, Marol, Andheri (East), Mumbai - 400 059

CIN: U74999MH2005PLC155683 | SEBI Permanent Registration No.: IN / CRA / 006 / 2011

Analytical	Rating Desk
<p>Vinayak Nayak Head – Ratings Operations Tel: 022-67141190 vinayak.nayak@smera.in</p> <p>Abhishek Dey Executive Analyst - Rating Operations Tel: +91 33 6620 1208 abhishek.dey@smera.in</p>	<p>Varsha Bist Manager - Rating Desk Tel: 022-67141160 varsha.bist@smera.in</p>

ABOUT SMERA

SMERA Ratings Limited is a joint initiative of SIDBI, D&B and leading public and private sector banks in India. SMERA is registered with SEBI, accredited by RBI as an External Credit Assessment Institution (ECAI), under BASEL-II norms for undertaking Bank Loan Ratings. SMERA Bond Ratings is a division of SMERA Ratings Limited responsible for ratings of bank facilities, and capital market/money market debt instruments such as Bonds, Debentures, Commercial Papers, Fixed Deposits, Certificate of Deposits etc.. For more details, please visit www.smera.in.

Disclaimer: A SMERA rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. SMERA ratings are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, SMERA, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. SMERA is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind arising from the use of its ratings. SMERA ratings are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website (www.smera.in) for the latest information on any instrument rated by SMERA.