

Press Release

D V Exports

October 17, 2019



Rating Downgraded and Assigned

Total Bank Facilities Rated*	Rs. 15.00 Cr.
Long Term Rating	ACUITE BB+ (CE) / Outlook: Stable (Downgraded from ACUITE BBB- /Stable)
Short Term Rating	ACUITE A4+ (CE) (Assigned)

* Refer Annexure for details

Rating Rationale

Acuité has downgraded long-term rating to '**ACUITE BB+ (CE)** (read as ACUITE double B plus (Credit Enhancement)) from '**ACUITE BBB-/Stable**' (read as ACUITE triple B minus) and assigned short-term rating of '**ACUITE A4+ (CE)** (read as ACUITE A four plus (Credit Enhancement)) on the Rs. 15.00 crore bank facilities of D V EXPORTS (DVE). The outlook is '**Stable**'.

The downgrade in rating is on account of significant increase in exposure to group entities in form of loans and advances coupled with moderation of operating performance. The operating revenues have declined Rs. 350.6 crore for FY2019 as against turnover of Rs. 400.80 crore in FY2018. Further, there is limited visibility of turnover in the medium term on account of low YTD, which stood at Rs. 115 crore till September 2019.

Aurangabad-based, D V Exports (DVE) was established in 2007 as a proprietorship firm engaged in trading of cotton bales, seeds and hull. It was promoted by Mr. Sanchit Rajpal. DVE is a part of Manjeet Group. The group consists of various companies and firms predominantly engaged in cotton ginning, cotton pressing and cotton trading activities.

Standalone (Unsupported) Rating

ACUITE BB-/ Stable

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of the D V Exports to arrive at the rating. The rating has been notched up for group support from Manjeet Group.

Key Rating Drivers

Strengths

- **Experienced proprietor**

DVE has track record of a decade, which has helped develop and maintain long-standing relations with customers and suppliers. The firm also benefits from the experience of its promoter, Mr. Sanchit Rajpal, who possesses around three decades of experience in the cotton textile industry through group companies in the Manjeet Group.

- **Moderate financial risk profile**

DVE's financial risk profile is moderate, marked by a moderate networth and gearing and debt protection metrics.

DVE's networth is moderate estimated at around Rs. 52.80 crore as on March 31, 2019. The networth is inclusive of Rs. 22.61 crore unsecured loans from proprietor, which are considered as quasi-equity. The firm has followed a conservative financial policy in the past, the same is reflected through regular infusion of unsecured loans to support working capital requirements and its peak gearing levels of 0.44 as on 31 March, 2017 and total outside liabilities to tangible networth (TOL/TNW) of 1.28 times as on March 31, 2019. DVE's moderate cash accruals to the tune of about Rs. 2.48 crore for FY2019 have supported in minimizing the reliance on external debt lead to debt levels of Rs. 21.43 crore as on March 31, 2019, which includes unsecured loans of Rs. 11.34 crore. DVE's cash accruals over

the next two years through 2021 are estimated to remain in the range of Rs. 2.2-3.1 crores, which are comfortable to support about 100 per cent of the routine capex and incremental working capital requirements. As a result, the gearing, however, is expected to be moderate at around 0.4 times as on March 31, 2021 on back of absence of any major debt funded capex plan and healthy accretion to reserves.

The revenues of DVE increased by CAGR of around 59 per cent to Rs. 350.59 crore during 2015-19, however its operating margins were unstable in the range of 0.9-2.6 per cent. The moderate profitability levels coupled with moderate debt levels has led to moderate debt protection measures. The NCA/TD and interest coverage ratio for FY 2019 stood at 0.12 times and 1.68 times, respectively. Acuité believes that the firm will be able to maintain its financial risk profile in absence of any debt funded capex plans.

Weaknesses

- **Extension of funds in loans and advances**

DVE has a tangible net worth of Rs.52.80 crore as on 31 March, 2019. The firm has extended loans and advances to the tune of Rs.43.80 crore to group entities as on 31 March, 2019. The adjusted tangible net worth stood at Rs.9.00 crore as on 31 March, 2019. The adjusted gearing stood at 2.38 times and TOL/TNW stood at 7.49 times as on 31 March, 2019. Any further extension of loans and advances will entail a negative bias towards the rating.

- **Marginal deterioration in working capital cycle**

The working capital cycle of the firm is has marginally deteriorated marked by GCA of 105 days as on March 31, 2019 as against 52 days as on March 31, 2018. The increase in GCA days is on account of increase in inventory days to 10 days as on March 31, 2019 against 2 days as on March 31, 2018. This is due to addition of other Agri products in the trading business apart from ginning and export of cotton and extraction of cotton oil seeds. Further, the debtor days stood at 31 days as on March 31, 2019 against 27 days as on March 31, 2018. The cash credit limit is utilized at 75 per cent for the last six months ending September, 2019.

- **Volatility in raw material prices and government regulatory constraints**

Cotton prices are regulated by the government through MSP (Minimum Support Price) mechanism. However, the selling price of the output depends on the prevailing demand supply situation, restricting bargaining power with customers, thereby impacting margins.

- **Agro-climatic risks**

Cotton is a seasonal crop and the production of the same is highly dependent upon monsoons. Thus, an inadequate monsoon may affect the availability of cotton.

Rating Sensitivities

- Further extension of funds to group entities
- Further decline in operating income or decline in profitability margins
- Further elongation of working capital cycle

Material Covenants

The borrower to undertake not to extend finance to associate concerns during the currency of bank's advance without the bank's written consent.

Liquidity position

DVE has moderate liquidity marked by healthy net cash accruals to maturing debt obligations. DVE generated cash accruals of Rs. 2.5 crore to Rs. 1.0 crore during the last three years through 2017-19, while its maturing debt obligations were NIL for the same period. The cash accruals of DVE are estimated to remain around Rs. 2.2 to 3.1 crores during 2019-21, while its repayment obligations are estimated to be NIL during the same time. Further, the firm has extended loans and advances to group companies to the tune of Rs.43.80 crore as on 31 March 2019. DVE's operations are moderately working capital intensive managed but the firm has kept moderate reliance on working capital borrowings, the cash credit limit in DVE remains utilized at 75 per cent during the last 6 months period ended August 2019. DVE maintains unencumbered cash and bank balances of Rs. 1.38 crore as on March 31, 2019. The current ratio of DVE stood healthy at 1.8 times as on March 31, 2019. DVE is not likely to incur any major capex to be funded by external borrowing. Acuité believes that the liquidity of DVE is likely to remain impacted owing to outflows of funds in

form of loans and advances, any further extension of loans and advances are likely to impinge the liquidity of the firm.

Outlook: Stable

Acuité believes that DVE will maintain a 'Stable' outlook over the medium term owing to its experienced management. The outlook may be revised to 'Positive' in case DVE registers significant growth in revenue while sustaining profitability. Conversely, the outlook may be revised to 'Negative' in case of steep decline in profitability or deterioration in capital structure or liquidity position.

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	350.59	400.80	71.71
EBITDA	Rs. Cr.	3.27	2.80	1.89
PAT	Rs. Cr.	2.44	0.98	2.07
EBITDA Margin	(%)	0.93	0.70	2.64
PAT Margin	(%)	0.69	0.25	2.88
ROCE	(%)	9.76	7.93	8.28
Total Debt/Tangible Net Worth	Times	0.41	0.03	0.44
PBDIT/Interest	Times	1.68	1.28	1.77
Total Debt/PBDIT	Times	3.51	0.31	4.14
Gross Current Assets (Days)	Days	105	52	284

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

Not applicable.

Any other information

None.

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.htm>
- Trading Entities - <https://www.acuite.in/view-rating-criteria-6.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>

Note on complexity levels of the rated instrument

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

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
26-Jul-2018	Proposed Cash Credit	Long Term	15.00	ACUITE BBB- / Stable (Assigned)

***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	7.50 (Revised from Rs. 15.00 crore)	ACUITE BB+(CE)/ Stable (Downgraded from ACUITE BBB-/Stable)
Bills Discounting	Not Applicable	Not Applicable	Not Applicable	7.50	ACUITE A4+ (CE) (Assigned)

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About Acuité Ratings & Research:

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