

Press Release

Dhanuka Soya Private Limited

March 17, 2020

Rating Assigned



| | |
|-------------------------------------|-----------------------------|
| Total Bank Facilities Rated* | Rs.11.00 crore |
| Long Term Rating | ACUITE BBB/ Outlook: Stable |

* Refer Annexure for details

Rating Rationale

Acuité has assigned the long-term rating of '**ACUITE BBB**' (read as **ACUITE triple B**) on the Rs.11.00 crore bank facilities of DHANUKA SOYA PRIVATE LIMITED (DSPL). The outlook is '**Stable**'.

Incorporated in the year 2014, DSPL is a Neemuch, Madhya Pradesh based company. The company is promoted by Mr. Kailash Kumar Dhanuka and Mr. Sunil Dhanuka. The Company is engaged in extraction of soya bean refined edible oil and manufacturing of De-oiled cakes (DOC) and other byproducts of soya bean. The promoters of the company are engaged in oil trade since last 30 years. The unit was being operated in the name of Shree Nath Oils Private Limited. Subsequently, the promoters decided to set up a new Soya Processing plant in the name of Dhanuka Extraction Private Limited in the year 2008-2009. Further, expansion took place in the name of Dhanuka Soya Private Limited at the adjacent land which commenced its operation in the year 2014.

The plant has installed capacity of 700MT per day for Soya DOC and edible oil refining capacity of 150MT per day. DSPL has entered into a job work agreement with Dhanuka Extraction Private Limited where as per the agreement the entire manufacturing facility belonging to Dhanuka Extraction Private Limited has been made available to Dhanuka Soya Private Limited on exclusive basis.

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of DSPL to arrive at this rating.

Key Rating Drivers

Strengths

- **Established track record of operations and experienced management**

DSPL is promoted by Mr. Kailash Kumar Dhanuka and Mr. Sunil Dhanuka. The promoters of the company have been engaged in the business line for around three decades through various entities including Shree Nath Oils Private Limited, Dhanuka Extraction Private Limited. The extensive experience of the promoters has helped in establishing healthy relationships with its customers and suppliers. The key customers of the company include names like Skylark Feed Private Limited, Madhuri Refiners Private Limited, and Boond Multifoods Processing Private Limited amongst others with no major concentration in revenues. Since the company is located at Neemuch, Madhya Pradesh which is also hub for the cement industry is therefore well connected with railway lines across India. So, DSPL takes the advantage of this connectivity and is able to sell the DOC at relatively competitive prices to far away markets. On the back of the stable and repeat orders by the key customers, the revenues have seen a growth of 105.21 percent over the last year. The revenue of the company stands at Rs.1283.94 crore in FY2019 as against Rs.625.67 crore in FY2018. Further, the company has registered an operating income of Rs.811.50 crore (provisional) for FY2020 (9M).

Acuité believes that the company will benefit from the experience of the management and the manufacturing location will be an added advantage for the company as Madhya Pradesh ranks first in

terms of area, production and productivity of soya seeds which will help the company to get the benefit in terms of savings on logistic cost for its soya seed procurement.

- **Healthy Financial Risk Profile**

DSPL's financial risk profile is healthy, marked by healthy net worth, low gearing and healthy debt protection metrics. DSPL's net worth is healthy estimated at around Rs.71.40 crore as on March 31, 2019. The net worth levels have seen significant improvement over the last three years through FY2019 on account of healthy accretion to reserves during the same period. The company has followed a conservative financial policy in the past, the same is reflected through its peak gearing and total outside liabilities to tangible net worth (TOL/TNW) levels of 0.64 times and 1.15 times as on March 31, 2018. The leverage levels continue to remain low to around 0.21 times as on March 31, 2019. The company incurred capex of Rs.3.70 crore over the last three years to expand its scale of operation, while its incremental working capital requirement over the same period to support the increase in scale of operations has been around Rs.2.14crore. The company on the other hand generated cash accruals of Rs.18.49 crore over the same period. DSPL's cash accruals over the next two years through 2021 are estimated to remain in the range of Rs.19.00 crore to Rs.21.00 crore. The gearing however is expected to be low at around 0.18 times as on March 31, 2021 on back of absence of any major debt funded capex plan.

The revenues of the company increased by around 105.21 percent to Rs.1283.94 crore during 2018-19, while its operating margins has declined from 4.77 percent in FY2018 to 2.32 percent in FY2019. The profitability levels coupled with low debt levels has led to healthy debt protection measures. The NCA/TD and interest coverage ratio for FY 2019 were healthy at 1.24 times and 6.52 times, respectively.

- **Efficient working capital management**

DSPL's working capital is efficiently managed as is reflected by its gross current asset (GCA) days of around 17 days estimated as on March 31, 2019. The company maintains raw material inventory of around 14 days. DSPL extends a credit period of around 2 days to its customer. The company collects advances from its customer for the Soya Oil and extends a credit period of around 3-4 days for its Soya DOC customer. On the other hand, the company gets 5 days credit from its suppliers. As a result, the reliance on working capital limit is low, leading to low utilization of its bank line at an average of ~15.82 percent over the last 11 months through November 2019. While its peak utilization was high at around 88.39 percent during the same period. Acuite expects the working capital management to remain efficient over the medium term on account of limited credit period extended to its customer.

Weaknesses

- **Low profitability margins amidst intense competition in the agro industry**

DSPL has exhibited low and fluctuating operating profitability (in the range of ~2.32 to 4.77 per cent) over the past three years. The margins are subdued on account of commoditized and low value addition inherent in the activity. Also, the company operates in a highly competitive and fragmented nature of industry characterized by low entry barriers and low capital intensity of the business.

Acuite believes that the operating margins will be influenced by the ability of the company to introduce high value products.

- **Susceptibility of operating margins to fluctuations in raw material prices**

DSPL deals in agro commodities, the prices of which are highly volatile and depend upon various factors like monsoon, acreage under cultivation, government regulations, etc. as a result the margins are exposed to fluctuations in raw material prices.

Rating Sensitivities

- Improvement in the profitability thereby improving the overall financial risk profile
- Stretch in working capital cycle leading to deterioration in liquidity

Material Covenants

None

Liquidity position: Healthy

The company has healthy liquidity marked by healthy net cash accruals to no maturing debt obligations. The company generated cash accruals of Rs.18.49 crore in FY2019 as against no maturing debt obligations during the same period. The cash accruals of the company is estimated to remain around Rs.19.22 crore to Rs.21.67 crore during 2020-22 against no repayment obligations during the same period. The company's working capital operations is efficient marked by the gross current asset (GCA) days of 17 days for FY2019. The average bank limit utilization stood at 15.84 per cent for eleven months ended November, 2019. The company maintains unencumbered cash and bank balances of Rs.0.98 crore as on 31 March 2019. The current ratio stands at 3.28 times as on 31 March 2019. Acuite believes that the liquidity of the company is likely to remain adequate over the medium term on account of healthy net cash accruals to no debt repayments over the medium term.

Outlook: Stable

Acuite believes that DSPL will maintain a stable outlook over the medium term backed by its experienced management and established track record in the aforementioned industry. The outlook may be revised to "Positive", if the firm demonstrates substantial and sustained growth in its revenues and operating margins from the current levels while maintaining its capital structure. Conversely, the outlook may be revised to "Negative", if company generates lower-than-anticipated cash accruals, most likely as a result of sharp decline in operating margins thereby impacting its business risk profile, particularly its liquidity.

About the Rated Entity - Key Financials

| | Unit | FY19 (Actual) | FY18 (Actual) |
|-------------------------------|---------|---------------|---------------|
| Operating Income | Rs. Cr. | 1283.94 | 625.67 |
| PAT | Rs. Cr. | 15.18 | 16.56 |
| PAT Margin | (%) | 1.18 | 2.65 |
| Total Debt/Tangible Net Worth | Times | 0.21 | 0.64 |
| PBDIT/Interest | Times | 6.52 | 8.78 |

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

CARE, vide its press release dated February 20, 2020 has denoted the rating of Dhanuka Soya Private Limited as 'CARE BBB-/Stable; ISSUER NOT-COOPERATING' on account of lack of adequate information required for monitoring of ratings.

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Entities in Manufacturing Sector - <https://www.acuite.in/view-rating-criteria-50.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.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. Cr.) | Ratings/Outlook |
|------------------------|------------------|----------------|----------------|-----------------------------|--------------------|
| Cash Credit | Not Applicable | Not Applicable | Not Applicable | 11.00 | ACUITE BBB/ Stable |

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About Acuité Ratings & Research:

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