Press Release

Dhanraj Solvex Private Limited

August 09, 2021

Rating Reaffirmed

Total Bank Facilities Rated*	Rs.45.21 Cr. (Enhanced from Rs.27.21 Cr.)
Long Term Rating	ACUITE BB+/ Outlook: Stable (Reaffirmed)

** Refer Annexure for details*

Rating Rationale

Acuité has reaffirmed its long-term rating of '**ACUITE BB+**' **(read as ACUITE double B plus)** to the Rs.45.21 crore bank facilities of Dhanraj Solvex Pvt. Ltd. (DSPL). The outlook is **'Stable.'**

The rating action derives comfort from experienced management and moderate track record of operations of 5 years. During the last three years ended March 31, 2021 (Provisional), DSPL's revenue grew at a CAGR of ~14per cent and net profit by ~84per cent. The rating also takes into account moderate financial risk profile and efficient working capital management marked by GCA days of 55-56 for FY2020 and FY2021 (Provisional). The rating, however, is constrained by thin albeit improving EBITDA margin, fragmented industry and susceptibility to volatile raw material prices.

About the Company

DSPL was established in 2014 by Mr. Dhanraj Pallod. The Latur-based company is engaged in manufacturing of crude edible soyabean oil and soyabean de-oiled cake. The company's manufacturing facility is located in MIDC area of Latur and has 1,98,000 tons per annum of installed capacity.

Analytical Approach

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

Key Rating Drivers

Strengths

- **Experienced management and moderate track record of operations**
  DSPL is into the solvent extraction business since past 5 years. Mr. Dhanraj Pallod, founder and promoter of the company has been in the business of soyabean and cereal trading since past 2 decades. With the expertise and experience in soyeabean industry gained over the years, Mr. Pallod started solvent extraction plant in October 2016 and in less than 5 years of operations, the company crossed the turnover of Rs.500 Crore. The company's revenue grew at a CAGR of ~14per cent and net profit by ~84per cent during FY2019 to FY2021 (Provisional). The company's revenue in FY2021 (Provisional) grew by 14.38per cent driven by higher realization (up ~10per cent) amid a sharp improvement in soyabean oil prices.

  Moreover, DSPL recently added a new product (Hypro soyabean de-oiled cake) into its portfolio, which is a high margin product and would help improve the company's business scale with some improvement in profitability.

  Acuite believes that the promoter's experience would continue to support DSPL's growth even going ahead. DSPL's revenue is estimated to grow at a CAGR of ~12-13per cent during FY2022 to FY2024. However, availability of sufficient working capital would be a key monitorable.

- **Moderate financial risk profile**
  DSPL has a moderate financial risk profile marked by modest net worth, moderate but improving gearing position and moderate debt protection metrics. The company's net worth as on March 31, 2021 (Provisional) stood at Rs.28.44 crore compared to Rs.14.49 crore as on March 31, 2020.

The company's gearing position (debt to equity ratio), as on March 31, 2021 (Provisional) stood at 1.20 times compared to 2.74 times and 3.94 times as on March 31, 2020 and March 31, 2019, respectively. The improvement in gearing position was led by higher net worth and lower debt level. DSPL's debt level, as on March 31, 2021 (Provisional), was at Rs.34.13 crore, comprising term loan of Rs.16.12 crore, short-term debt of Rs.11.24 crore and unsecured loans from directors and related parties of Rs. 6.77 crore. Acuite believes that gearing level of the company would continue to improve going ahead with debt to equity ratio standing at 0.5-0.7 times during FY2023-FY2024, provided no significant debt-funded capex.

Interest coverage ratio (ICR) of the company, for FY2021 (Provisional) increased to 3.88 times from 2.53 times for FY2020 and debt service coverage ratio (DSCR) stood at 2.34 times for FY2021 (Provisional) compared to 1.43 times for FY2020. Going ahead, over a medium term, ICR would increase further to 4.5-7 times during FY2022-FY2024. While, DSCR would deteriorate but remain at a moderate level of ~2-2.3 times during the same period.

- **Efficient working capital management**
  DSPL has efficient working capital management with gross current asset (GCA) days standing at 55-56 for the last two years ending March 31, 2021 (Provisional). GCA days are driven by inventory days, which were at 49 for FY2021 (Provisional) against 47 for FY2020. The company's collection period stood at 5-8 days and creditor days at around 20-23 for FY2020 and FY2021 (Provisional). However, bank limit utilization stood at ~88 per cent during the last 6 months through June 2021. Going ahead, too, the company's GCA days would remain around 55-58 in the medium term. However, the company would need higher working capital to scale up its business.

Weaknesses

- **Thin albeit improving operating margin**
  DSPL's EBITDA margin has remained at a lower level of less than 3 per cent in the past, though it has been improving since past couple of years. In FY2021 (Provisional), EBITDA margin stood at 2.69per cent compared to 2.35per cent in FY2020 and 1.14 per cent in FY2019. Though the new high-margin product would help improve operating margin to some extent, the EBITDA margin would to remain around 3 per cent level even going ahead.

- **Fragmented industry and susceptibility to volatile raw material prices**
  The company operates in highly fragmented industry with dominance of unorganized market, which impacts pricing power of organized players. Further, soyabean oil seeds is a key raw material and prices of soyabean/soyabean oil are very volatile. Therefore, revenue growth and margin of the company depend on fluctuation in soyabean/soyabean oil prices.

Rating Sensitivities

- Sharp fluctuation in prices of soyabean oil
- Availability of sufficient working capital

Material Covenants

Nil

Liquidity Position – Adequate

DSPL has adequate liquidity position marked by sufficient net cash accruals to maturing debt obligations. The company generated cash accruals of Rs.8.14 crore during FY2021 (Provisional) against maturing debt obligations of Rs.1.46 crore. Current ratio of the company improved to 1.65 times as on March 31, 2021 (Provisional) from 1.39 times as on March 31, 2020. Bank limit utilization, however, remained higher at ~88per cent during the six months ended June 2021.

Going ahead, the company is expected to generate sufficient cash accruals to its debt repayment obligations. Cash accruals, during FY2022 to FY2024, are estimated in the range of Rs.10 crore to Rs.14.73 crore against the maturing debt obligations of Rs.2.41 crore to Rs.5.24 crore during the same period. Acuite believes that the company's liquidity position would remain adequate over a medium term with sufficient net cash accruals to term debt repayment.

Outlook: Stable

Acuité believes that DSPL would maintain 'Stable' outlook on the back of experienced management and efficient working capital management. The outlook may be revised to 'Positive' in case the company reports better than expected revenue and improvement in operating margin. Conversely, the outlook may be revised to 'Negative' in case the company reports lower than expected revenue, thereby hurting its financial risk profile and liquidity.

About the Rated Entity - Key Financials

	Unit	FY21 (Provisional)	FY20 (Actual)
Operating Income	Rs. Cr.	507.50	443.70
PAT	Rs. Cr.	5.95	1.49
PAT Margin	(%)	1.17	0.33
Total Debt/Tangible Net Worth	Times	1.20	2.74
PBDIT/Interest	Times	3.88	2.53

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

Not Applicable

Any other information

Not Applicable

Applicable Criteria

- Default Recognition -https://www.acuite.in/view-rating-criteria-52.htm
- Manufacturing Entities -https://www.acuite.in/view-rating-criteria-59.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)

Date	Name of Instrument/facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
12-Jul-2021	Cash Credit	Long Term	11.50	ACUITE BB+/Stable (Assigned)
	Term Loan	Long Term	8.25	ACUITE BB+/Stable (Assigned)
	Term Loan	Long Term	2.37	ACUITE BB+/Stable (Assigned)
	Term Loan	Long Term	4.89	ACUITE BB+/Stable (Assigned)
	Proposed Bank Facility	Long Term	0.20	ACUITE BB+/Stable (Assigned)

*Annexure – Details of instruments rated

Lender Name	Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Union Bank of India	Cash Credit	Not Applicable	Not Applicable	Not Applicable	29.00 (Enhanced from Rs.11.50 Cr.)	ACUITE BB+/Stable (Reaffirmed)
Union Bank of India	Term Loan	08-Jan-2015	13.00%	30-Sep-2024	8.25	ACUITE BB+/Stable (Reaffirmed)
Union Bank of India	Term Loan	23-Jun-2016	13.00%	30-Sep-2024	2.37	ACUITE BB+/Stable (Reaffirmed)
Union Bank of India	Term Loan	30-Mar-2021	13.00%	30-Mar-2025	4.89	ACUITE BB+/Stable (Reaffirmed)
Not Applicable	Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	0.70 (Enhanced from Rs.0.20 Cr.)	ACUITE BB+/Stable (Reaffirmed)

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