

## Press Release

Dhanraj Solvex Private Limited

June 02, 2022



### Rating Assigned and Upgraded

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	45.21	ACUITE BBB-   Stable   Upgraded	-
Bank Loan Ratings	48.26	ACUITE BBB-   Stable   Assigned	-
Total Outstanding Quantum (Rs. Cr)	93.47	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

### Rating Rationale

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

Further, Acuite has assigned a long term rating of 'ACUITE BBB-' (read as ACUITE triple B minus) on the Rs. 48.26 crore long term bank facilities of Dhanraj Solvex Pvt. Ltd. (DSPL). The outlook is '**Stable**.'

### Rationale for Rating upgrade

The rating upgrade takes into account the substantial increase in the revenues of DSPL for FY2022(Provisional). The revenue for FY2022 (Provisional) stood at Rs. 773 crore against Rs. 490 crore in FY2021 a growth of 58 percent. This was primarily driven by increase in prices as well as quantity. The company utilised around 1,18,000 tons of capacity in FY2022 (Prov.) as against 80,400 tons in FY2021 while the average selling price for soyabean oil stood at ~Rs. 1,13,000 per ton during FY2022 against Rs. 100,000 in FY2021. The rating also continues to draw comfort from the extensive experience of the management and their timely support to the business in the form of unsecured loan infusion, along with comfortable gearing and coverage indicators. The working capital cycle remained efficient with GCA of 45 days in FY2022(Prov.) and 70 days in FY2021. However rating remains restrained on account of higher dependency on bank limits to fund its working capital requirements. Bank limit utilization remains above 95 percent for six month period ended April 2022. The upgrade also considers DSPL's foray into the oil refinery business which is expected to improve the operating margins in the coming period. The rating is however constrained by thin operating margins, high working capital utilisations and susceptibility of profits to volatility of commodity prices.

### About the Company

DSPL was established in 2014 by Mr. Dhanraj Pallod. However, the commercial operations commenced in October 2016. 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 currently has 600 tons per day of installed capacity, proposed to increase to 1000 tons per day in the coming period.

## Analytical Approach

Acuite has considered 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 6 years. Final products include De-oiled cakes and soyabean edible oil. 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 soyabean 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.450 Crores. Moreover, the long-term presence in the industry has helped DSPL garner reputed clientele which include names like ITC Limited, Cargill India Private Limited, Godrej Agrovet etc.

Acuite believes that going ahead, the promoter's experience would continue to support DSPL's growth.

#### Significant growth in scale of operations albeit thin operating margins

DSPL reported significant improvement in its revenues which stood at Rs. 773 crore for FY2022(Provisional) against Rs. 490 crore in FY2021 marking a growth of around 58%. It has also surpassed Acuite's revenue projections made for FY2022. The revenue growth was partially driven by rising prices of soyabean oil along with increase in the DSPL's capacity utilisation. DSPL currently has an installed capacity of around 1,68,000 tons per annum. During FY2022(Provisional) the company utilised around 1,18,000 tons of capacity as against 80,400 tons in FY2021 while the average selling price for soyabean oil stood at ~Rs. 1,13,000 per ton during FY2022 against Rs. 100,000 in FY2021. Further, DSPL is in plans to diversify its foray into refined oil segment, and has a debt funded capex planned for oil refinery set-up with a capacity of 100 tons per day. Further, the company has also planned to expand its current extraction capacity from 1,68,000 tons per annum to around 2,80,000 tons per annum. The company has received a sanction for a term loan to the tune of Rs. 32 crore for the same. The expansion is expected to complete by September 2022 and COD is expected by November 2022, which will scale up DSPL's operations further. However, the fragmented nature of the industry and dominance of unorganised players impacts the pricing power of the organised players making it difficult to maintain high level of operating margins. The company reported operating margins at 1.69 percent and 2.12 percent during FY2022(Provisional) and FY2021 respectively.

#### Comfortable financial risk profile

DSPL has a moderate financial risk profile marked by moderate net worth, moderate gearing position and healthy coverage indicators. The company's net worth as on March 31, 2022 (Provisional) stood at Rs.32.02 crore compared to Rs.25.96 crore as on March 31, 2021. However, the company has infused funding into the business to the tune of Rs. 19.74 crore which includes an infusion to the tune of Rs. 15 crore into the paid up capital and balance Rs. 4.74 crore in the form of USL which will increase the net worth to around Rs. 53 crore during FY2023. The company's gearing position (debt to equity ratio), as on March 31, 2022 (Provisional) stood at 1.51 times compared to 1.28 times as on March 31, 2021. The increase in the leverage was led by enhanced working capital limits extended by bank to DSPL. DSPL's debt level, as on March 31, 2022 (Provisional), was at Rs.48.28 crore, comprising a term loan of Rs.14.14 crore, short-term debt of Rs.28.35 crore and unsecured loans from directors and related parties of Rs. 5.80 crore. Further the Interest coverage ratio (ICR) of the company, for FY2022 (Provisional) increased to 3.86 times from 2.85 times for FY2021 and debt service coverage ratio (DSCR) stood at 1.52 times for FY2022 (Provisional) compared to 1.86 times for FY2021. Going ahead, over a medium term, ICR is expected to maintain current levels of 3.60-3.80 times during FY2023-FY2024. While, DSCR would deteriorate considering the debt funded capex plan, but remain at a moderate level of 1.64 times and 1.23 times during the same period.

## **Weaknesses**

### **Thin operating margin**

DSPL's operating margin has remained low in the range of 3 per cent since for the past three year period ended FY2022. In FY2022 (Provisional), operating margin stood at 1.69 per cent against to 2.12 per cent in FY2021. The margin deteriorated during FY2022 because of the higher freight outward charges. Also, the fragmented nature of the industry and dominance of unorganised players impacts the pricing power of the organised players making it difficult to maintain high level of operating margins. However, since September 2021 DSPL has introduced a new product (Hi-Pro DOC) which contains higher protein and vitamin content added to the de-oiled cakes at no major cost to the company. These have demands in the poultry, animal feed, marine and aqua farming companies. Further, DSPL's plan to foray into the refined oil segment by installing its own refinery is expected to improve DSPL's realizations and margins.

### **Susceptibility to fluctuations in agro-based raw material price**

Operations are exposed to the inherent risks associated with the agriculture-based commodity business, such as availability of raw materials, fluctuations in prices, and changes in government regulations. The group is engaged in the extracting and edible oil business. The prices of crude edible oil are volatile in nature hence the profitability is highly susceptible to the ability of the company to pass on the same to its customers. Further, the demand-supply of soya bean oil and de-oiled cake (DOC) is affected by change in regulations in exporting and importing countries.

### **Rating Sensitivities**

- Sharp fluctuation in prices of soyabean/soyabean oil
- Availability of sufficient working capital
- Timely execution and completion of the proposed capex plan

### **Material covenants**

None

### **Liquidity Position: Adequate**

DSPL has adequate liquidity position marked by adequate net cash accruals to maturing debt obligations. The company generated cash accruals of Rs.8.08 crore during FY2022 (Provisional) against maturing debt obligations of Rs.5.40 crore. Current ratio of the company improved to 1.39 times as on March 31, 2022 (Provisional) from 1.13 times as on March 31, 2021. Bank limit utilization, however, remained almost fully utilised at ~99per cent during the six months ended April 2022. Going ahead, the company is expected to generate sufficient cash accruals to its debt repayment obligations. Cash accruals, during FY2023 to FY2024, are estimated in the range of Rs.12 crore to Rs.15 crore against the maturing debt obligations of Rs. 9 crore to Rs.11 crore during the same period.

### **Outlook: Stable**

Acuité believes that DSPL would maintain 'Stable' outlook on the back of experienced management, healthy revenue growth and timely support from the promoters through equity infusion. The outlook may be revised to 'Positive' in case the company reports better than expected improvement in the revenue and operating margin. Conversely, the outlook may be revised to 'Negative' in case the company reports lower than expected revenue, or any further stretch in the working capital utilisation thereby affecting its liquidity

### **Other Factors affecting Rating**

Not Applicable

## Key Financials

Particulars	Unit	FY 21 (Actual)	FY 20 (Actual)
Operating Income	Rs. Cr.	490.33	443.70
PAT	Rs. Cr.	2.53	1.49
PAT Margin	(%)	0.52	0.33
Total Debt/Tangible Net Worth	Times	1.28	2.74
PBDIT/Interest	Times	2.85	2.53

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

CARE wide its press release dated March 21, has continued to report the rating under Issuer not co-operating category

### 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-59.htm>
- Application Of 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

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
09 Aug 2021	Cash Credit	Long Term	29.00	ACUITE BB+   Stable (Reaffirmed)
	Proposed Bank Facility	Long Term	0.70	ACUITE BB+   Stable (Reaffirmed)
	Term Loan	Long Term	2.37	ACUITE BB+   Stable (Reaffirmed)
	Term Loan	Long Term	4.89	ACUITE BB+   Stable (Reaffirmed)
	Term Loan	Long Term	8.25	ACUITE BB+   Stable (Reaffirmed)
12 Jul 2021	Term Loan	Long Term	4.89	ACUITE BB+   Stable (Assigned)
	Term Loan	Long Term	2.37	ACUITE BB+   Stable (Assigned)
	Proposed Bank Facility	Long Term	0.20	ACUITE BB+   Stable (Assigned)
	Cash Credit	Long Term	11.50	ACUITE BB+   Stable (Assigned)
	Term Loan	Long Term	8.25	ACUITE BB+   Stable (Assigned)

## Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Union Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	29.00	ACUITE BBB-   Stable   Upgraded ( from ACUITE BB+ )
Union Bank of India	Not Applicable	Proposed Cash Credit	Not Applicable	Not Applicable	Not Applicable	17.00	ACUITE BBB-   Stable   Assigned
Union Bank of India	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	0.42	ACUITE BBB-   Stable   Upgraded ( from ACUITE BB+ )
Union Bank of India	Not Applicable	Proposed Term Loan	Not Applicable	Not Applicable	Not Applicable	0.74	ACUITE BBB-   Stable   Upgraded ( from ACUITE BB+ )
Union Bank of India	Not Applicable	Proposed Term Loan	Not Applicable	Not Applicable	Not Applicable	31.26	ACUITE BBB-   Stable   Assigned
Union Bank of India	Not Applicable	Term Loan	23-06-2016	Not available	30-09-2024	1.69	ACUITE BBB-   Stable   Upgraded ( from ACUITE BB+ )
Union Bank of India	Not Applicable	Term Loan	08-01-2015	Not available	30-09-2024	6.28	ACUITE BBB-   Stable   Upgraded ( from ACUITE BB+ )
Union Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	4.64	ACUITE BBB-   Stable   Upgraded ( from ACUITE BB+ )
Union							ACUITE BBB-   Stable

Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	2.44	Upgraded (from ACUITE BB+)
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### About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI) for Bank Loan Ratings under BASEL-II norms in the year 2012. Acuité has assigned ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

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