

Press Release

Dhanraj Solvex Private Limited

March 23, 2023

Rating Reaffirmed



| Product | Quantum (Rs. Cr) | Long Term Rating | Short Term Rating |
|------------------------------------|------------------|-----------------------------------|-------------------|
| Bank Loan Ratings | 93.47 | ACUITE BBB- Stable Reaffirmed | - |
| Total Outstanding Quantum (Rs. Cr) | 93.47 | - | - |

Rating Rationale

Acuite has reaffirmed its long-term rating of '**ACUITE BBB-**' (read as **ACUITE triple B minus**) on the Rs. 93.47 crore long term bank facilities of Dhanraj Solvex Private Limited. (DSPL). The outlook is '**Stable.**'

Rationale for Rating reaffirmation

The rating reaffirmation factors in the improvement in the operating and financial performance of the company marked by the improvement in the operating income, marginal decline in the operating profitability and the moderate financial risk profile. The company's revenue company improved and stood at Rs.772.92 crore in FY2022 compared to revenue of Rs.490.33 crore in FY2021. Further, the company has recorded a turnover of Rs.1073.29 crore in 11MFY2023. DSPL's operations are working capital efficient. However, the ratings are constrained by the high dependency on bank limits for the working capital requirements, thin operating margins 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 1000 tons per day of installed capacity and 100 tons per day oil refinery capacity.

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. 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.

Moderate financial risk profile

The company has a moderate financial risk profile marked by tangible net worth of Rs.32.81 crore as on 31 March 2022 as against Rs.25.96 crore as on 31 March 2021. The networth of the company has increased in FY2023 due to the equity infusion of Rs.15 crore during that period for the capital expenditure. The gearing level of the company stood at 1.47 times as on 31 March 2022 as against 1.28 times as on 31 March 2021. The total debt of the company stood at Rs.48.29 crore as on 31 March 2022. It consists of long-term debt of Rs.9.06 crore, unsecured loans of Rs.5.80 crore and short-term debt of Rs.28.35 crore as on 31 March 2022. The company has taken a term loan of Rs.32 crore for the capital expenditure and has also enhanced the CC limits from 29 crore to Rs.46 crore in FY2023. The coverage ratios of the company stood moderate with Interest Coverage Ratio (ICR) of 4.02 times for FY2022 against 2.85 times for FY2021. The Debt Service Coverage Ratio (DSCR) stood at 1.63 times for FY2022 against 1.86 times for FY2021. The total outside liabilities to tangible net worth (TOL/TNW) of the company stood at 2.56 times for FY2022 as against 3.93 times in FY2021. Acuite believes that the company is likely to maintain its moderate financial risk profile on account of no major debt funded capex in medium term.

Working capital efficient operations

The company's operations are working capital efficient as evident from Gross Current Asset (GCA) of 44 days as on March 31, 2022, as against 70 days as on March 31, 2021. The inventory levels have improved and stood at 31 days for FY2022 compared against 60 days for FY2021. Average inventory holding period for the raw materials is around 15 days. The inventory has improved in FY22 as the company immediately dispatches the hi-pro product and not much inventory is stocked up. The debtor days stood at 13 days for FY2022 against 10 days for FY2021. The average credit period allowed to the customers is around 8-10 days. The creditor days of the company stood at 7 days for FY2022 as against 20 days for FY2021. The average credit period received from the customers is around 5 days. The company needs to pay the suppliers immediately after procuring the soyabean seeds. The average utilization of the CC limits of the company remains high at ~94 percent in last six months ended February' 2023. Acuite believes that the working capital operations are likely to remain efficient in the medium term.

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 operating margin stood at 1.94 per cent against 2.12 per cent in FY2021. The marginal decline in the operating margins in FY2022 is because of the higher freight outward charges. However, the fragmented nature of the industry and dominance of unorganised players also impact the pricing power of the organised players making it difficult to maintain high level of operating margins. 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

Significant improvement in scale of operations while sustaining its profitability margins and financial risk profile.

Sharp fluctuation in prices of soyabean/soyabean oil

Availability of sufficient working capital

Material covenants

None

Liquidity position: Adequate

The company has an adequate liquidity position marked by adequate net cash accruals against its maturing debt obligations. The company generated cash accruals of Rs.9.24 crore in FY2022 compared against maturing debt obligation of Rs.4.17 crore over the same period. The cash accruals of the company are estimated to remain in the range of Rs.16.48-32.03 crore during 2023-25 period while its maturing debt obligations is estimated to be in the range of Rs.6.23-10.18 crore during the same period. The average utilization of the CC limits of the company remains high at ~94 percent in last six months ended February ' 2023. The company maintains unencumbered cash and bank balances of Rs.0.50 crore as on March 31, 2022. The current ratio stood at 1.35 times as on March 31, 2022.

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 margins. 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

None

Key Financials

| Particulars | Unit | FY 22 (Actual) | FY 21 (Actual) |
|-------------------------------|---------|----------------|----------------|
| Operating Income | Rs. Cr. | 772.92 | 490.33 |
| PAT | Rs. Cr. | 5.60 | 2.53 |
| PAT Margin | (%) | 0.72 | 0.52 |
| Total Debt/Tangible Net Worth | Times | 1.47 | 1.28 |
| PBDIT/Interest | Times | 4.02 | 2.85 |

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

None

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

In order to inform the investors about complexity of instruments, Acuite has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in.

Rating History

| Date | Name of Instruments/Facilities | Term | Amount (Rs. Cr) | Rating/Outlook |
|-------------|--------------------------------|-----------|-----------------|--|
| 02 Jun 2022 | Proposed Term Loan | Long Term | 31.26 | ACUITE BBB- Stable (Assigned) |
| | Proposed Bank Facility | Long Term | 0.42 | ACUITE BBB- Stable (Upgraded from ACUITE BB+ Stable) |
| | Term Loan | Long Term | 1.69 | ACUITE BBB- Stable (Upgraded from ACUITE BB+ Stable) |
| | Term Loan | Long Term | 2.44 | ACUITE BBB- Stable (Upgraded from ACUITE BB+ Stable) |
| | Proposed Term Loan | Long Term | 0.74 | ACUITE BBB- Stable (Upgraded from ACUITE BB+ Stable) |
| | Term Loan | Long Term | 4.64 | ACUITE BBB- Stable (Upgraded from ACUITE BB+ Stable) |
| | Term Loan | Long Term | 6.28 | ACUITE BBB- Stable (Upgraded from ACUITE BB+ Stable) |
| | Proposed Cash Credit | Long Term | 17.00 | ACUITE BBB- Stable (Assigned) |
| | Cash Credit | Long Term | 29.00 | ACUITE BBB- Stable (Upgraded from ACUITE BB+ Stable) |
| 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 | Cash Credit | Long Term | 11.50 | ACUITE BB+ Stable (Assigned) |
| | Term Loan | Long Term | 8.25 | ACUITE BB+ Stable (Assigned) |
| | 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) |

Annexure - Details of instruments rated

| Lender's Name | ISIN | Facilities | Date Of Issuance | Coupon Rate | Maturity Date | Complexity Level | Quantum (Rs. Cr.) | Rating |
|---------------------|----------------|----------------------------------|------------------|----------------|----------------|------------------|-------------------|-----------------------------------|
| Union Bank of India | Not Applicable | Cash Credit | Not Applicable | Not Applicable | Not Applicable | Simple | 46.00 | ACUITE BBB- Stable Reaffirmed |
| Not Applicable | Not Applicable | Proposed Long Term Bank Facility | Not Applicable | Not Applicable | Not Applicable | Simple | 0.42 | ACUITE BBB- Stable Reaffirmed |
| Union Bank of India | Not Applicable | Term Loan | Not available | Not available | Not available | Simple | 32.00 | ACUITE BBB- Stable Reaffirmed |
| Union Bank of India | Not Applicable | Term Loan | Not available | Not available | Not available | Simple | 1.69 | ACUITE BBB- Stable Reaffirmed |
| Union Bank of India | Not Applicable | Term Loan | Not available | Not available | Not available | Simple | 6.28 | ACUITE BBB- Stable Reaffirmed |
| Union Bank of India | Not Applicable | Term Loan | Not available | Not available | Not available | Simple | 4.64 | ACUITE BBB- Stable Reaffirmed |
| Union Bank of India | Not Applicable | Term Loan | Not available | Not available | Not available | Simple | 2.44 | ACUITE BBB- Stable Reaffirmed |

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About Acuité Ratings & Research

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