



Press Release
DHANRAJ SOLVEX PRIVATE LIMITED
December 15, 2023
Rating Assigned and Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	54.00	ACUITE BBB- Stable Assigned	-
Bank Loan Ratings	93.47	ACUITE BBB- Stable Reaffirmed	-
Total Outstanding Quantum (Rs. Cr)	147.47	-	-

Rating Rationale

Acuite has reaffirmed and assigned its long-term rating of '**ACUITE BBB-**' (read as **ACUITE triple B minus**) on the Rs. 147.47 crore long term bank facilities of Dhanraj Solvex Private Limited. (DSPL). The outlook is '**Stable.**'

Reason for reaffirmation

The rating takes into account the improvement in the business risk profile in the FY23 as well as in 7MFY24. The revenue of the company improved and stood at Rs.1109.70 crore in FY23 compared to revenue of Rs.772.92 crore in FY22. Till October 2023, the company's revenue stood at Rs.1034.33 crores. The benefits from the increased capacity in FY23 is reflected in the revenues till October 2023 along with good demand for the High Protein Deoiled cake product. The ratings are however constrained by the high bank limit utilization of ~98 percent even after the increase in the bank limits. The company has added corporate clients to their customer portfolio leading to increase in the credit period provided to these customers and increase in the bank limit utilization.

Since the company is planning to sell the edible oil of their own brand 'Dhanraj', the ability of the company to be able to penetrate the brand in the retail markets while maintaining the working capital cycle will remain key monitorable in medium term.

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.

Unsupported Rating

Not Applicable

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.59.13 crore as on 31 March 2023 as against Rs.32.81 crore as on 31 March 2022. The company has infused capital in FY23 for the purpose of capital expenditure. The gearing level of the company stood at 1.80 times as on 31 March 2023 as against 1.47 times as on 31 March 2022. The total debt of the company stood at Rs.106.38 crore as on 31 March 2023. It consists of long-term debt of Rs.31.32 crore, unsecured loans of Rs.5.80 crore and short-term debt of Rs.59.09 crore as on 31 March 2023. The company had added debt of Rs.32 crore in FY23 for capacity expansion. Although the Debt/EBITDA has increased due to the capacity addition to 4.21 times. However, the expected improvement in the business risk profile in the medium term is likely to decline the Debt/EBITDA to around 2.00-2.50 times. The coverage ratios of the company stood moderate with Interest Coverage Ratio (ICR) of 3.52 times for FY23 against 4.02 times for FY22. The Debt Service Coverage Ratio (DSCR) stood at 1.79 times for FY23 against 1.63 times for FY22. The total outside liabilities to tangible net worth (TOL/TNW) of the company stood at 2.43 times for FY23 as against 2.56 times in FY22. 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 51 days as on March 31, 2023, as against GCA days of 44 days as on March 31, 2022. The inventory levels stood at 33 days for FY23 compared against 31 days for FY22. Average inventory holding period is around 60 days. The debtor days stood at 16 days for FY23 against 13 days for FY22. The average credit period allowed to the customers is around 30 days. The creditor days of the company stood at 11 days for FY23 as against 12 days for FY22. The average credit period received from the customers is around 5 days. The company needs to make immediate payment to the suppliers for procurement of the soyabean seeds. The company has enhanced their CC facility from Rs.46 crore to Rs.100 crore. However, the average utilization of the CC limits of the company remains high at ~98 percent in last six months ended October'23. Acuite believes that the ability of the company to maintain its working capital operations will remain key monitorable in the medium term.

Weaknesses

Thin operating margins

The operating margins of the company are thin as per the characteristic trait of edible oil business. 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. The margins have remained low in the range of 2-3 per cent since for the past three-year period ended FY2021. The operating margins stood at 2.25 percent in FY23 as against 1.94 percent in FY22. The operating margins have improved marginally and stood at 3.18 percent in FY23. DSPL's plan to foray into the refined oil segment and selling their own branded product as well as the higher margins from Hi-pro DOC are expected to improve DSPL's realizations and margins in medium term.

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.
Any change in the working capital cycle leading to higher reliance on debt.
Any deterioration in the financial risk profile of the company.

All Covenants

Not applicable

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.14.70 crore in FY23 compared against maturing debt obligation of Rs.5.08 crore over the same period. The cash accruals of the company are estimated to remain in the range of Rs.36.51-41.36 crore during 2023-25 period while its maturing debt obligations is estimated to be in the range of Rs.6.23-8.92 crore during the same period. The company maintains unencumbered cash and bank balances of Rs.1.79 crore as on March 31, 2023. The current ratio stood at 1.45 times as on March 31, 2023.

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 23 (Actual)	FY 22 (Actual)
Operating Income	Rs. Cr.	1109.70	772.92
PAT	Rs. Cr.	10.07	5.60
PAT Margin	(%)	0.91	0.72
Total Debt/Tangible Net Worth	Times	1.80	1.47
PBDIT/Interest	Times	3.52	4.02

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-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
23 Mar 2023	Cash Credit	Long Term	46.00	ACUITE BBB- Stable (Reaffirmed)
	Proposed Bank Facility	Long Term	0.42	ACUITE BBB- Stable (Reaffirmed)
	Term Loan	Long Term	32.00	ACUITE BBB- Stable (Reaffirmed)
	Term Loan	Long Term	4.64	ACUITE BBB- Stable (Reaffirmed)
	Term Loan	Long Term	1.69	ACUITE BBB- Stable (Reaffirmed)
	Term Loan	Long Term	6.28	ACUITE BBB- Stable (Reaffirmed)
	Term Loan	Long Term	2.44	ACUITE BBB- Stable (Reaffirmed)
02 Jun 2022	Proposed Term Loan	Long Term	31.26	ACUITE BBB- Stable (Assigned)
	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)
	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 Cash Credit	Long Term	17.00	ACUITE BBB- Stable (Assigned)
	Proposed Bank Facility	Long Term	0.42	ACUITE BBB- Stable (Upgraded from ACUITE BB+ Stable)
	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)
	Proposed Bank Facility	Long Term	0.20	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)

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
Union Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	54.00	ACUITE BBB- Stable Assigned
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Simple	11.41	ACUITE BBB- Stable Reaffirmed
Union Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	29.87	ACUITE BBB- Stable Reaffirmed
Union Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	0.56	ACUITE BBB- Stable Reaffirmed
Union Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	2.29	ACUITE BBB- Stable Reaffirmed
Union Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	0.90	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

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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