

Press Release

Dolswap Business Private Limited

March 30, 2022



Rating Assigned

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	13.00	ACUITE BBB Stable Assigned	-
Bank Loan Ratings	2.50	-	ACUITE A3+ Assigned
Total Outstanding Quantum (Rs. Cr)	15.50	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has assigned the long-term rating of '**ACUITE BBB**' (read as ACUITE Triple B) and the short-term rating of '**ACUITE A3+**' (read as ACUITE A Three plus) to Rs. 15.50 Cr bank facilities of Dolswap Business Private Limited (DBPL). The outlook is 'Stable'.

The assigned ratings favourably factor in Tenty Group's established customer profile comprising market leaders in the writing instruments sector supported by extensive experience of the promoters. The rating also draws comfort from the above average financial position characterized by low gearing and the adequate liquidity position of the group, further supported by fund infused by the promoters. These rating strengths are partially offset by its exposure to risks related to volatility in raw material prices, intense competition in the packaging industry and stretched receivables.

About Company

Incorporated in 1997, Dolswap Business Private Limited (DBPL) manufactures injection-moulded products used in the manufacturing of pens and its spare parts having a manufacturing facility in West Bengal.

About the Group

Group companies, Tenty Marketing Co Private Limited is also involved in manufacturing of pens and pen parts, cosmetics packaging, and other FMCG products packaging. Established in 1979, Excellent Moulders is the flagship company of the Tenty group, involved in manufacturing plastic fan parts, having state of the art injection moulding setup in Kolkata, West Bengal. The group acquired Vishwa Electrotech Limited in 2012 which is into manufacturing & trading of electrical appliances and sells under the brand name '**Polar**'.

Analytical Approach

Extent of Consolidation

- Full Consolidation

Rationale for Consolidation or Parent / Group / Govt. Support

Acuité has consolidated the business and financial risk profiles of Tenty Marketing Co Private Limited (TMCPL) and its associates- Dolswap Business Private Limited (DBPL), Excellent Moulders (EM) and Vishva Electrotech Limited (VEL) together referred to as the 'Tenty Group'. The consolidation is in view of common management, similar line of business, strong operational linkages between the entities, cross holding within the group.

Key Rating Drivers

Strengths

Extensive experience of the promoters coupled with diversified product profile

The Tenty group has been in the plastic packaging segment for more than four decades. The group have their own units in West Bengal and Assam, respectively. The extensive experience of the promoters have helped the group to build a healthy reputation and long-standing relationships with its reputed clientele, including Linc Pen and Plastics Ltd, Win Pen Pvt Ltd, Haldiram Bhujwala Ltd, Orient Electric Ltd, over the years. The promoters' experience of over four decades, their strong understanding of local market dynamics, and healthy relations with suppliers and customers should continue to support the business.

The group has a diversified product profile that includes plastic pen and its spare parts, various types of packaging products, varied size containers, cups and bottles made of 100 per cent food grade materials. The products find application in various end-user industries such as- education sector, food and beverages sectors, FMCG, etc. The group has a diversified customer base, with top 4 customers contributing ~60 per cent of the FY 2021 revenue. Thus, diversified product profile and reputed customer base de-risks the business to a large extent.

Sustained revenue recovery amidst nationwide lockdown

The group achieved revenues of Rs. 583.50 Cr in FY2021 as compared to revenues of Rs.577.27 Cr in FY2020. The outbreak of the COVID-19 pandemic challenged the writing instruments segment, moderating offtake as educational institutions remained closed and the sale of stationery products declined. This challenge was coupled with the unavailability of workers due to the nationwide lockdown. However, on the contrary increased work-from-home of urban professionals provided a fillip to electrical consumer appliances category. The group has been able to regain its growth trajectory with operating income of Rs. 614.96 Cr till February 2022 (Provisional) on account of ease of lockdown and reopening of the education sector. Further, the group is expected to clock revenues of around Rs. 700 Cr. for FY2022.

The operating margin of the group declined to 6.70 per cent as on 31st March, 2021 from 7.22 per cent in FY2020. Also, the PAT margin of the group declined to 1.19 per cent in FY2021 from 1.44 per cent in FY2020. The profitability margins of the group has been volatile over the past three years, on account of fluctuations in material expenses. Major raw materials include plastic granules, which are crude-oil derivatives and thus the prices for the same are fluctuating in nature. Since raw material costs account for ~85 per cent of total production cost, even a slight variation in rates of raw materials drastically impacts the profitability. The Return on Capital Employed (RoCE) of the group stood moderate at 13.45 per cent as on FY2021 as compared to 14.40 per cent as on FY2020.

Average financial risk profile

The group's average financial risk profile is marked by healthy network base, comfortable gearing and moderate debt protection metrics. The tangible net worth of the group improved to Rs.123.82 crore as on March 31, 2021 from Rs.118.11 crore as on March 31, 2020 due to accretion of reserves. Acuité has considered unsecured loans to the tune of Rs.45.00 Cr as on March 31, 2021 as part of network as these loans are subordinated to bank debt. Gearing of the group also improved as it stood below unity at 0.73 as on March 31, 2021 as compared to 0.79 as on March 31, 2020. The promoters have extended significant financial support to the group, via unsecured loans to cover working capital and debt obligations. The Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood at 2.64 times as on March 31,

2021 as against 2.44 times as on March 31, 2020. The moderate debt protection metrics of the group is marked by Interest Coverage Ratio at 1.80 times as on March 31, 2021 and Debt Service Coverage Ratio at 1.27 times as on March 31, 2021. Net Cash Accruals/Total Debt (NCA/TD) stood low at 0.12 times as on March 31, 2021. Acuité believes that going forward, the financial risk profile of the group will remain healthy with no major debt funded capex plans.

Weaknesses

Working capital intensive nature of operations

The working capital intensive nature of operations of the group is marked by high Gross Current Assets (GCA) of 247 days as on March 31, 2021 as against 218 days as on March 31, 2020. The high GCA days are on account of stretched receivables of the group which stood at 195 days as on March 31, 2021 as compared to 154 days as on 31st March 2020. Due to the seasonal nature of fan and coolers, the revenues for these are relatively higher during Q4 of a financial year. Due to the peak season in fan components and cooler sales in Q4, the group is saddled with high debtor days leading to high working capital intensity during the financial year end. Nonetheless, the group has substantial dependence on its suppliers and creditors to support the working capital; creditors stood at 139 days as on March 31, 2021. However, the inventory period stood comfortable at 42 days as on 31st March, 2021 as against 47 days in the previous year. Going forward, Acuité believes that the working capital management of the group will remain at similar levels as evident from stretched collection mechanism and comfortable level of inventory period over the medium term.

Susceptibility to volatility in prices of raw materials

The prices of the raw materials are impacted by global demand and are linked to global crude oil prices, making them highly volatile. The major raw materials for Tenty's products are the plastic granules derived from crude oil. The group's operating performance remained muted in FY2021 and FY2020 due to decline in the crude oil prices. Throughout 2019, increases in U.S. petroleum production put downward pressure on crude oil prices. Further during Q1 2021, worldwide demand for oil fell rapidly as governments closed businesses due to the COVID-19 pandemic resulting into oversupply of oil leading to an unprecedented collapse in oil prices. The group's revenues were partially impacted due to price fluctuations and Covid induced disruptions. Also any sharp increase in the price will impact profitability. Moreover, due to the ongoing Russia-Ukraine crisis the impact of price hike in crude oil would be the sharpest and have a direct effect on inflation at the retail as well as wholesale level. The fluctuation in the prices is generally passed on to the customers, albeit with a lag. The group's margins are susceptible to the rise in material costs owing to a time lag in the passthrough of price hikes to the customers, although the regular price revision mitigates the risk to an extent. Further, with the customers bearing the freight expenses, there is some postponement of offtake during periods of high freight rates, for cost optimisation at the customer's end.

Rating Sensitivities

- Significant growth in revenue and profitability margin
- Elongation of working capital cycle

Material Covenants

None

Liquidity Position: Adequate

The group's liquidity is adequate marked by adequate net cash accruals stood at Rs.14.43 Cr as on March 31, 2021 as against long term debt repayment of Rs.6.57 Cr over the same period. The current ratio stood moderate at 1.36 times as on March 31, 2021. The cash and bank balances of the group stood at Rs.0.63 Cr as on March 31, 2021 as compared to Rs.1.91 Cr as on March 31, 2020. Further, even though the operations are being working capital

intensive still there is low dependence on external debt to fund its working capital requirements which is reflected in moderate average fund based limit utilization at 59 per cent over the six months ended February, 2022. The group has also availed loan moratorium and applied for additional Covid loan. Acuité believes that going forward the group will maintain adequate liquidity position due to steady accruals. Support from the promoters through unsecured loans further aids liquidity.

Outlook: Stable

Acuité believes that the group will maintain a 'Stable' outlook over the medium term backed by an experienced management and reputed clientele. The outlook may be revised to 'Positive' in case the group registers healthy growth in revenues coupled with sustained improvement in operating margins and capital structure. Conversely, the outlook may be revised to 'Negative' in case of a decline in the group's revenues or profit margins, or in case of deterioration in the company's financial risk profile.

Other Factors affecting Rating

Not Applicable

Key Financials

Particulars	Unit	FY 21 (Actual)	FY 20 (Actual)
Operating Income	Rs. Cr.	583.50	579.76
PAT	Rs. Cr.	6.95	8.37
PAT Margin	(%)	1.19	1.44
Total Debt/Tangible Net Worth	Times	0.73	0.79
PBDIT/Interest	Times	1.80	1.92

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

Not Applicable

Any Other Information

Not Applicable

Applicable Criteria

- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>
- Consolidation Of Companies: <https://www.acuite.in/view-rating-criteria-60.htm>
- Default Recognition: <https://www.acuite.in/view-rating-criteria-52.htm>
- Manufacturing Entities: <https://www.acuite.in/view-rating-criteria-59.htm>

Note on Complexity Levels of the Rated Instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History:

Not Applicable

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Bank of Baroda	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	13.00	ACUITE BBB Stable Assigned
Bank of Baroda	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	2.50	ACUITE A3+ Assigned

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About Acuité Ratings & Research

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