



Press Release
Dozco India Private Limited
May 31, 2023
Rating Downgraded

| Product | Quantum (Rs. Cr) | Long Term Rating | Short Term Rating |
|---|---------------------|--------------------------------------|---------------------------|
| Bank Loan Ratings | 124.00 | ACUITE BBB+ Stable Downgraded | - |
| Bank Loan Ratings | 106.00 | - | ACUITE A2 Downgraded |
| Total Outstanding Quantum (Rs. Cr) | 230.00 | - | - |

Rating Rationale

Acuité has downgraded its long-term rating to **ACUITE BBB+ (read as ACUITE triple B plus)** from **ACUITE A- (read as ACUITE A minus)** and its short-term rating to **ACUITE A2 (read as ACUITE A two)** from **ACUITE A2+ (read as ACUITE A two plus)** on the Rs. 230 crore bank facilities of Dozco India Private Limited (DIPL). The outlook is 'Stable'.

Rationale for the rating

The rating downgrade factors in the moderation in the business risk profile of the company marked a declining trend in operating margin for the past 3 years, which is estimated to further moderate in the current financial year. The ratings are restricted by the higher revenue share from trading businesses, a stretched operating cycle, competition from large engineering companies for their trading businesses, foreign exchange fluctuation risk, and inherent susceptibility to the cyclical nature of end user industries. Furthermore, the downgrade reflects DIPL's sustained elongated working capital cycle amid stretched receivables and high inventory levels, along with the repayment of loans, leading to high utilisation of the working capital limits. However, the financial risk profile has remained healthy, with gearing below unity and steady debt coverage indicators, because of the consistent increase in net worth and healthy cash accruals over the years. The ratings continue to draw comfort from the experienced management, wide distribution network, and long standing relationships with suppliers and customers.

About the Company

Incorporated in 1992, Dozco India Private Limited (DIPL) is engaged in the trading of heavy earth moving and construction equipment (HEMM) and its spare parts and the manufacturing of mining equipment. DIPL, with a corporate office in Vizag, is promoted by the Bangur family, and the company is currently headed by Mr. Radhe Shyam Bangur, Mr. Shiv Kumar Bangur, Mr. Om Prakash Bangur, Mr. Ramesh Kumar Bangur, Mr. Nand Gopal Bangur, and Mr. Kamal Kishore Bangur. The company also set up a manufacturing plant in 2013 to manufacture rockbreakers (hammers), chisels, buckets, hydraulic quick couplers, undercarriages, and other equipment for the mining and material handling industries.

Analytical Approach

Acuité has considered the standalone financial and business risk profile of Dozco India Private Limited (DIPL) to arrive at the rating.

Key Rating Drivers

Strengths

Long operational track record and experienced management

The directors of the company, Mr. Radhe Shyam Bangur, Mr. Shiv Kumar Bangur, Mr. Om Prakash Bangur, Mr. Ramesh Kumar Bangur, Mr. Nand Gopal Bangur, and Mr. Kamal Kishore Bangur, have been in the industry for around four decades. Acuité derives comfort from the long experience of the promoters. DIPL has a long operational track record of around four decades in the mining industry. Acuité believes that the long track record of operations will benefit the company going forward, resulting in steady growth in the scale of operations.

Steady business risk profile buoyed by geographical diversification and a steady customer base

The steady business risk profile of DIPL is primarily due to geographical diversification and a strong network base. DIPL has a diversified customer base across India. The company also exports to various countries, namely Australia, Vietnam, Sri Lanka, Bhutan, Nepal, and Bangladesh. The company achieved revenues of Rs. 314.95 crore in FY22 as compared to Rs. 302.91 crore in FY21, thereby registering a y-o-y growth of 3.97 percent. Further, the company achieved revenues of Rs. 385 crore (provisional) in FY23. The growth in top line is due to the increase in sales of HEMM machines and mining equipment, along with the spare parts business. However, DIPL has achieved an operating margin of 10.93 percent in FY22 as compared to 11.31 percent in FY21. The PAT margin for FY22 stood at 3.60 percent as compared to 3.21 percent in FY21. The decline in margins was due to the increase in the freight rate on imports of HEMM machinery. Acuité believes that going forward, the diversified geographical presence of the company along with the extensive network base may continue to benefit the company, resulting in an improvement in the scale of operations.

Healthy financial risk profile

The company's financial risk profile is healthy, marked by a healthy net worth, comfortable gearing, and healthy debt protection metrics. The tangible net worth (TNW) of the company increased to Rs. 220.78 crore as of March 31, 2022, from Rs. 209.49 crore as of March 31, 2021, due to the accretion of profits to the reserves. Acuité has considered unsecured loans of Rs. 38.75 crore as of March 31, 2022, as quasi-equity as the management has undertaken to maintain the amount in the business over the medium term. The gearing of the company stood comfortably at 0.53 times as of March 31, 2022, as against 0.46 times as of March 31, 2021. The Total Outside Liabilities/Tangible Net Worth (TOL/TNW) stood comfortably at 0.83 times as of March 31, 2022, as compared to 0.79 times as of March 31, 2021. The healthy debt protection metrics of the company are marked by an interest coverage ratio (ICR) of 2.73 times as of March 31, 2022, however, the debt service coverage ratio (DSCR) stood at a moderate level of 1.52 times as of March 31, 2022. Acuité believes that the financial risk profile of the company is likely to remain healthy over the medium term, in the absence of any major debt funded capex plans.

Weaknesses

Working capital intensive nature of operations

The working capital intensive nature of operations of the company is marked by high Gross Current Assets (GCA) of 341 days as of March 31, 2022, as compared to 339 days as of March 31, 2021. The high level of GCA days is primarily on account of high inventory levels during the same period. The inventory holding stood at 281 days on March 31, 2022 as compared to 275 days on March 31, 2021. This high inventory level is because spare parts for all brands and models are kept in stock because they are imported and have a long lead time. The debtor days increased marginally from 73 days in the previous year to 80 days as of March 31, 2022. However, the receivables due for more than 180 days have increased substantially to Rs 21.51 crore in FY 2023 (Prov.) as compared to Rs 7.28 crore in FY 2021. Thus, any write-offs or delays in realisation can impact the liquidity as well as the financial risk profile of the company. Acuité believes that the working capital operations of the firm are likely to remain almost at the same levels over the medium term due to the high levels of inventory holding.

Susceptibility to inherent cyclical and foreign exchange risk

The trading part of the business, which involves selling in heavy earth moving machinery (HEMM) and spare components through approved dealerships, accounts for the majority of the company's sales. Despite having a well-established presence, the company faces competition from dealers of an array of domestic and foreign manufacturers in heavy earth moving machinery. The challenge is exacerbated by the end user sectors' innate propensity for cyclical. To strengthen its sales mix and lessen the risks involved, the company has planned to boost manufacturing's percentage of overall revenue in the medium to long term. Since the company imports 70–80% of its overall purchases, it is naturally exposed to the risk of foreign exchange rate fluctuations. However, the corporation uses forward contracts or derivative limits with banks to limit its exposure to foreign exchange risk.

Rating Sensitivities

Growth in operating income while sustaining the current profitability
Elongation in working capital cycle
Any write-off in receivables

Material covenants

None

Liquidity Position

Adequate

The company's liquidity is adequate marked by steady net cash accruals of Rs. 18.77 Cr as on March 31, 2022 as against long term debt repayment of Rs.7.70 Cr over the same period. The current ratio stood comfortable at 2.03 times as on March 31, 2022 as compared to 2.01 times as on March 31, 2021. The cash and bank balances of the company stood at Rs. 1.81 Cr as on March 31, 2022. The fund based limit utilization is moderate which stood to 74 per cent over the ten months ended March, 2023. However, the working capital intensive nature of operations of the company is marked by Gross Current Assets (GCA) of 341 days as on 31st March 2022 as compared to 339 days as on 31st March 2021.

Acuité believes that going forward the company will maintain an adequate liquidity position due to steady accruals.

Outlook: Stable

Acuité believes that the outlook on DIPL will remain 'Stable' over the medium term on account of the long track record of operations, experienced management, strong business risk profile, and healthy financial risk profile. The outlook may be revised to 'Positive' in the event of significant growth in revenue or operating margins from the current levels. Conversely, the outlook may be revised to 'Negative' in the event of a decline in revenue or operating margins, a deterioration in the financial risk profile, or a further elongation in its working capital cycle.

Other Factors affecting Rating

None

Key Financials

| Particulars | Unit | FY 22 (Actual) | FY 21 (Actual) |
|-------------------------------|---------|----------------|----------------|
| Operating Income | Rs. Cr. | 314.95 | 302.91 |
| PAT | Rs. Cr. | 11.34 | 9.73 |
| PAT Margin | (%) | 3.60 | 3.21 |
| Total Debt/Tangible Net Worth | Times | 0.53 | 0.46 |
| PBDIT/Interest | Times | 2.73 | 2.38 |

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>
- Trading Entitle: <https://www.acuite.in/view-rating-criteria-61.htm>
- Default Recognition: <https://www.acuite.in/view-rating-criteria-52.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 |
|-------------|--------------------------------|------------|-----------------|-------------------------------|
| 03 May 2022 | Working Capital Term Loan | Long Term | 2.16 | ACUITE A- Stable (Assigned) |
| | Working Capital Term Loan | Long Term | 12.50 | ACUITE A- Stable (Assigned) |
| | Proposed Bank Facility | Short Term | 2.40 | ACUITE A2+ (Assigned) |
| | Proposed Bank Facility | Short Term | 4.71 | ACUITE A2+ (Assigned) |
| | Bank Guarantee | Short Term | 12.00 | ACUITE A2+ (Assigned) |
| | Cash Credit | Long Term | 26.50 | ACUITE A- Stable (Assigned) |
| | Cash Credit | Long Term | 10.00 | ACUITE A- Stable (Assigned) |
| | Term Loan | Long Term | 7.07 | ACUITE A- Stable (Assigned) |
| | Cash Credit | Long Term | 14.00 | ACUITE A- Stable (Assigned) |
| | Term Loan | Long Term | 1.60 | ACUITE A- Stable (Assigned) |
| | Working Capital Term Loan | Long Term | 5.13 | ACUITE A- Stable (Assigned) |
| | Proposed Bank Facility | Short Term | 2.55 | ACUITE A2+ (Assigned) |
| | Letter of Credit | Short Term | 8.50 | ACUITE A2+ (Assigned) |
| | Letter of Credit | Short Term | 8.00 | ACUITE A2+ (Assigned) |
| | Proposed Bank Facility | Short Term | 2.65 | ACUITE A2+ (Assigned) |
| | Letter of Credit | Short Term | 27.50 | ACUITE A2+ (Assigned) |
| | Cash Credit | Long Term | 22.00 | ACUITE A- Stable (Assigned) |
| | Term Loan | Long Term | 13.61 | ACUITE A- Stable (Assigned) |

| | | | |
|---------------------------|------------|-------|-------------------------------|
| Working Capital Term Loan | Long Term | 3.24 | ACUITE A- Stable (Assigned) |
| Letter of Credit | Short Term | 26.00 | ACUITE A2+ (Assigned) |
| Working Capital Term Loan | Long Term | 4.00 | ACUITE A- Stable (Assigned) |
| Term Loan | Long Term | 1.38 | ACUITE A- Stable (Assigned) |
| Cash Credit | Long Term | 12.50 | ACUITE A- 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 |
|--|----------------|-----------------------|------------------|----------------|----------------|------------------|-------------------|-----------------------------------|
| State Bank of India | Not Applicable | Bank Guarantee (BLR) | Not Applicable | Not Applicable | Not Applicable | Simple | 10.00 | ACUITE A2 Downgraded |
| State Bank of India | Not Applicable | Cash Credit | Not Applicable | Not Applicable | Not Applicable | Simple | 12.50 | ACUITE BBB+ Stable Downgraded |
| Axis Bank | Not Applicable | Cash Credit | Not Applicable | Not Applicable | Not Applicable | Simple | 10.00 | ACUITE BBB+ Stable Downgraded |
| State Bank of India | Not Applicable | Cash Credit | Not Applicable | Not Applicable | Not Applicable | Simple | 26.50 | ACUITE BBB+ Stable Downgraded |
| Indusind Bank Ltd | Not Applicable | Cash Credit | Not Applicable | Not Applicable | Not Applicable | Simple | 10.00 | ACUITE BBB+ Stable Downgraded |
| ICICI Bank Ltd | Not Applicable | Cash Credit | Not Applicable | Not Applicable | Not Applicable | Simple | 14.00 | ACUITE BBB+ Stable Downgraded |
| HDFC Bank Ltd | Not Applicable | Cash Credit | Not Applicable | Not Applicable | Not Applicable | Simple | 22.00 | ACUITE BBB+ Stable Downgraded |
| HDFC Bank Ltd | Not Applicable | Covid Emergency Line. | Not Applicable | Not Applicable | Not Applicable | Simple | 3.41 | ACUITE BBB+ Stable Downgraded |
| Small Industries Development Bank of India | Not Applicable | Covid Emergency Line. | Not Applicable | Not Applicable | Not Applicable | Simple | 4.34 | ACUITE BBB+ Stable Downgraded |
| State Bank of India | Not Applicable | Covid Emergency Line. | Not Applicable | Not Applicable | Not Applicable | Simple | 10.85 | ACUITE BBB+ Stable Downgraded |
| Axis Bank | Not Applicable | Letter of Credit | Not Applicable | Not Applicable | Not Applicable | Simple | 16.00 | ACUITE A2 Downgraded |
| Indusind Bank Ltd | Not Applicable | Letter of Credit | Not Applicable | Not Applicable | Not Applicable | Simple | 36.00 | ACUITE A2 Downgraded |
| HDFC Bank Ltd | Not Applicable | Letter of Credit | Not Applicable | Not Applicable | Not Applicable | Simple | 8.00 | ACUITE A2 Downgraded |
| State Bank of India | Not Applicable | Letter of Credit | Not Applicable | Not Applicable | Not Applicable | Simple | 27.50 | ACUITE A2 Downgraded |

| | | | | | | | | |
|----------------|----------------|------------------|----------------|----------------|----------------|--------|------|-----------------------------------|
| ICICI Bank Ltd | Not Applicable | Letter of Credit | Not Applicable | Not Applicable | Not Applicable | Simple | 8.50 | ACUITE A2 Downgraded |
| ICICI Bank Ltd | Not Applicable | Term Loan | Not available | Not available | Not available | Simple | 1.75 | ACUITE BBB+ Stable Downgraded |
| HDFC Bank Ltd | Not Applicable | Term Loan | Not available | Not available | Not available | Simple | 8.65 | ACUITE BBB+ Stable Downgraded |

Contacts

| Analytical | Rating Desk |
|--|--|
| Aditya Gupta Vice President-Rating Operations Tel: 022-49294041 aditya.gupta@acuite.in Anik Das Senior Manager-Rating Operations Tel: 022-49294065 anik.das@acuite.in | Varsha Bist Senior Manager-Rating Operations Tel: 022-49294011 rating.desk@acuite.in |

About Acuité Ratings & Research

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