

Press Release

Dhanaraj Traders

May 05, 2022

Rating Assigned



Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	19.50	ACUITE BB Stable Assigned	-
Total Outstanding Quantum (Rs. Cr)	19.50	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has assigned its long-term rating of 'ACUITE BB' (read as ACUITE double B) to the Rs.19.50 crore bank facilities of Dhanraj Traders (DT). The outlook is '**Stable**'.

Rationale for Rating assigned

The rating takes into account the improvement in operating performance for the entity in FY2022 (Provisional). Revenue for FY2022 (Provisional) stood improved to Rs. 120 crore against Rs. 98 crore in FY2021, a growth of 22 percent. The rating action also derives comfort from the experience of proprietor and long track record of operations of 16 years. However, modest financial risk profile with high gearing and modest coverage indicators impart a negative bias to the rating. The rating, is further constrained by stretched liquidity profile, fragmented industry and susceptibility of margins to volatile prices.

About the Company

Dhanraj Traders (DT) based in Latur, Maharashtra is a proprietorship established in 2006. The entity is involved into trading of agricultural commodities which include Toor dal, Chana dal and Soya Bean. The entity procures its products from local farmers and is also involved into contract farming that helps the entity get desired result of harvest.

Analytical Approach

Acuite has considered a standalone financial and business risk profile of DT to arrive at the rating.

Key Rating Drivers

Strengths

Long track record of operations backed by extensive experience of the Proprietor

Latur based DT is a Proprietorship and is engaged into trading of agriculture commodities like Toor Dal, Chana Dal & Soyabean. Mr. Dhanraj Pallod, is the Proprietor and commenced with the operations in 2006. The extensive experience of the proprietor in the aforementioned industry gained over last 2 decades, has helped the firm to establish strong ties with the suppliers and customers. The entity caters to some reputed clientele which includes names like ITC Limited, Cargill India Private Limited etc.

Acuite believes that the proprietor's experience would continue to benefit DT's revenue growth over the medium term.

Improved operating performance

Entity is engaged in the agriculture commodities business. The business is seasonal in nature and substantial business happens post monsoon once the crop is harvested. Further the agriculture commodity industry is highly fragmented with prices being highly fluctuating and volatile. The entity has reported revenue of Rs. 120 crore. in FY2022 (Provisional) against Rs. 98 crore in FY2021. The revenues for initial part of FY2021 were impacted by the disruptions caused by spread of Covid 19. However, the operating performance has shown a revival in FY2022. It traded 19600 tonnes of grains in FY2022 (Provisional) against 16700 tonnes in FY2021. The entity's operating profitability stood at Rs.7.56 crore for FY2022(Provisional) against Rs.5.21 crore for FY2021. Further the entity's operating margins during FY2022(Provisional) also improved marginally to 6.30 percent against 5.31 percent in FY2021. The entity also reported increased net profit of Rs. 2.71 crore during FY2022(Provisional) against of Rs.0.71 crore during FY2021.

Acuite expects DT's ability to maintain its scale of operation while sustaining its profitability will remain a key rating sensitivity.

Weaknesses

Moderate financial risk profile

The entity's financial risk profile has been moderate marked by high gearing of 2.62 times as on March 31, 2022 (Provisional.) against 2.94 times and 1.97 times as on March 31, 2021 and March 31, 2020 respectively. The entity had availed covid emergency credit line to the tune of 6.45 crore during FY2021 which resulted in an increased gearing during the aforementioned period. However, the marginal improvement in gearing position as on March 31, 2022 (Provisional) was led by increase in net worth (Rs.16.50 crore | PY; Rs.13.80 crore) due to accretions of profit and closure of certain term loans. DT's debt level, as on March 31, 2022 (Provisional.) stood at Rs.44 crore, which comprised of long term loan of Rs.7.35 crore, short-term debt of Rs.19.50 crore while the entity also infused unsecured loans to the tune of Rs.16.50 crore which have mitigated any adverse effects on the financial risk profile. The coverage indicators of the entity although improved but stood moderate with ICR at 2.07 times during FY2022(Provisional) against 1.17 during FY2021 and DSCR for FY2022 (Provisional) at 1.75 times against 1.17 times during FY2021.

Profitability susceptible to price volatility of commodity prices

The entity operates in a highly fragmented industry with dominance of unorganized market, which impacts pricing power of organized players. Further, the prices of soyabean/ toor and chana are highly volatile. Therefore, the revenue growth of the entity depends on the fluctuation in the prices of the commodities making the margins susceptible to price volatility.

Rating Sensitivities

- Sustainance of revenue growth and operating margin over the price volatility
- Any further stretch in the liquidity profile

Material covenants

None

Liquidity Position: Stretched

DT has stretched liquidity position marked by low buffer between net cash accruals and maturing debt obligations as the entity has not been able to generate adequate cash accruals. The NCA/TD has remained low at 0.02 times in FY2021 and 0.06 times during FY2022(Provisional). The entity generated cash accruals of Rs.0.75 crore against maturing debt obligations of Rs.2.30 crore during FY2021. However, going ahead, the firm is expected to fairly meet its cash accruals to debt repayment obligations ratio. The cash accruals are expected to remain in the range of Rs. 2.75 crore to Rs. 4 crore during FY2022 & FY2023 against the

obligations in the range of Rs.2.65 crore to Rs.3.21 crore. Current ratio of the company stood at 2.09 times as on March 31, 2022 (Provisional) from 1.70 times as on March 31, 2021. The increase in the gross current assets is led by high GCA days. Further, the bank limit utilizations have remained almost completely utilised at ~99per cent during the six months ended February 2022. However, in order to avoid any adverse effect on the financial risk profile and liquidity of the firm, the Proprietor has infused funds to the tune of Rs.16.50 crore in the form of USL into the business.

Outlook: Stable

Acuité believes that DT would maintain a 'Stable' outlook on the back of experienced management and improved operating performance. The outlook may be revised to 'Positive' in case the firm reports higher than expected revenue along with increased operating margin. Conversely, the outlook may be revised to 'Negative' in case the company reports lower revenues thereby affecting its financial risk profile and liquidity.

Other Factors affecting Rating

Not Applicable

Key Financials

Particulars	Unit	FY 21 (Actual)	FY 20 (Actual)
Operating Income	Rs. Cr.	98.05	35.77
PAT	Rs. Cr.	0.71	0.25
PAT Margin	(%)	0.72	0.71
Total Debt/Tangible Net Worth	Times	2.94	1.97
PBDIT/Interest	Times	1.17	1.09

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

BWR, vide its press release dated November 18, 2021 had denoted the rating of Dhanaraj Traders as 'BWR B; ISSUER NOT CO-OPERATING' and simultaneously Withdrawn on account of request of withdrawal of ratings from the client.

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Trading Entitie: <https://www.acuite.in/view-rating-criteria-61.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:

Not Applicable

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	19.50	ACUITE BB Stable Assigned

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About Acuité Ratings & Research

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