

May 20, 2013

Facility	Amount (Rs. Crores)	Rating
Cash Credit (Sub Limit: Export Packing Credit and Export Bills Discounting)	5.50 (2.50)	SMERA B+/ Stable/ Assigned

SMERA has assigned a rating of '**SMERA B+**' (read as **SMERA single B plus**) to Rs. 5.50 crores long term facility of Dell'Orto India Private Limited (DIPL). The outlook is '**Stable**'. The rating is constrained by the relatively limited track record of operations in India, accumulated losses arising from net losses incurred during the preoperative years, exposure to the inherent cyclical nature of the automobile industry, customer concentration risk and below average credit profile of the holding company (Dell'Orto S.P.A. Italy). The rating also factors in DIPL's exposure to foreign exchange fluctuation risk. However, the rating draws support from the experience of the promoters and the existing team of management and engineering professionals, healthy capital structure, globally renowned brand name and technical support and competence derived from the holding company.

DIPL's product profile comprises automotive components, which include throttle bodies for two wheelers and four wheelers. Dell'Orto S.P.A., Italy (holding company) established DIPL as a strategic unit to tap the Indian automobile sector as well as the export market through low cost manufacturing. The holding company provides technical as well as research and development support, which enables DIPL to maintain quality and reliability in its products. At present, DIPL has five assembly line facilities in place and four such facilities underway. In May 2012, DIPL shifted its entire assembling facilities from Faridabad, Haryana to a larger unit at Pune, Maharashtra as a business strategy to enhance its scale of operations by being in proximity to the major auto cluster.

DIPL primarily caters to the automobile industry, which is facing a slowdown due to lower demand in the domestic and export market. DIPL's customers include Renault S.A., France, Dell'Orto S.P.A. Italy (for Rotax, Mexico), Bajaj Auto Limited (for KTM Austria), TATA – Bosch (for Tata Nano) and TATA – Fiat. Renault S. A. accounted for 56 per cent of the total revenue in FY2012 and around 49 per cent in the ten months of FY2013 (April 2012 to January 2013). Two of DIPL's domestic

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customers have deferred placing orders for the next three months due to prevailing market conditions. However, the company's export business is showing a positive trend, thereby offsetting volume decline in the domestic market.

DIPL exports around 75 per cent of its total sales to its holding company and Renault S. A. collectively. Around 42 per cent of the critical parts are imported and procured from the holding company and a few other companies, which expose DIPL to foreign exchange fluctuation risk. This risk is partially mitigated through natural hedging with holding company, where receipts and payments are routed through Exchange Earners Foreign Currency Account (EEFC). Transactions with Renault S. A. are undertaken through the vostro account.

DIPL was able to achieve a CAGR of 98 per cent over FY2008 to FY2012 on account of volume growth and addition of customers. DIPL incurred losses at the operating and net levels during FY2008 to FY2011; however, FY2012 was the first year during which the company registered operating and net profit. DIPL has accumulated losses to the tune of Rs.3.04 crores as on March 31, 2012, which are projected to be written off by FY2014. DIPL is a debt free company as on March 31, 2012. The entire capital expenditure incurred over the last five years was funded by the holding company. However, the holding company had below average financial risk profile as on December 31, 2011 (Jan 2011 to Dec 2011) marked by operating and net loss along with a highly leveraged capital structure.

DIPL's collection and payable days stood high at 243 days and 195 days, respectively, in FY2012; mainly on account of long standing dues receivable from and payable to the holding company. This led to a stretched working capital cycle of 149 days in FY2012, which is likely to improve on account of payments made to/received from the holding company till December 2012.

Outlook: Stable

In the last five years, DIPL has registered significant increase in sales due to addition of new customers and increased supply to existing customers. DIPL has a '**Stable**' outlook on account of the promoter's rich experience in the auto component industry, healthy capital structure and benefits derived from the holding company. However, improvement in the holding company's financial risk

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profile and DIPL's ability to expand its scale, maintain profit margins and gain competitive position remain the key rating sensitivities.

About the Company

DIPL was incorporated on January 19, 2006, as a joint venture between Bharat Caprihan & Associates (26 per cent stake) and Dell'Orto S.P.A. Italy (74 per cent stake). In 2009, Bharat Caprihan & Associates (Indian promoter of the JV) exited the venture by divesting its entire stake in favour of Dell'Orto S.P.A. Italy. Subsequently, to raise more funds for establishing its own manufacturing facilities in India, Dell'Orto S.P.A. Italy divested 31.93 per cent of its stake in favour of Societa Italiana Per Le Imprese All'Estero (Simest S.P.A.), which is an Italian financial institution.

At present, DIPL is managed by Mr. Andrea Dell'Orto, Mr. Giuseppe Dell'Orto, Mr. David Dell'Orto, Mr. Luca Dell'Orto, Mr. Kamal Wadhwa and Mrs. Pinki Jha (Secretary). Mr. Kamal Wadhwa (Executive Director) has around 22 years of experience in manufacturing and R&D activity related to engine management systems.

For FY2012, DIPL reported net profit of Rs. 2.72 crores on total income of Rs. 37.34 crores as compared with net loss of Rs. 2.16 crores on total income of Rs. 14.52 crores for FY2011.

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