

**December 20, 2013**

Facilities	Amount (Rs. Crore)	Ratings
Term Loan	1.67	SMERA BB+ / Stable (Assigned)
Cash Credit	2.45	SMERA BB+ / Stable (Assigned)
Working Capital Limit	1.00	SMERA BB+ / Stable (Assigned)
Export Packing Credit	10.50	SMERA A4+ (Assigned)
Letter of Credit	8.75	SMERA A4+ (Assigned)
Proposed Short Term Bank Loan Facility	4.63	SMERA A4+ (Assigned)

SMERA has assigned a long-term rating of '**SMERA BB+**' (read as **SMERA double B plus**) and a short-term rating of '**SMERA A4+**' (read as **SMERA A four plus**) to the above-mentioned bank facilities of Dynamic Industries Limited (DIL). The outlook is '**Stable**'. The ratings are supported by the company's long track record of operations and healthy financial risk profile marked by moderate leverage and healthy interest coverage ratio. The ratings are further supported by the company's long-standing customer relationships, experienced management and healthy revenue growth during H1FY2013-14 (refers to first six months of financial year, April 01 to March 31). However, the ratings are constrained by the company's exposure to intense competition prevalent in the dyestuff industry. The ratings are also constrained by the company's working capital-intensive operations and susceptibility to raw material price volatility and foreign exchange fluctuations.

DIL, incorporated in 1989, is an Ahmedabad-based manufacturer and exporter of acid dyes and direct dyes. The company has a healthy financial risk profile marked by moderate leverage (at 1.07 times) and interest coverage ratio of (1.83 times) as on March 31, 2013. DIL benefits from its long-standing association with customers based in Spain, Italy, Netherlands and Turkey. The company also benefits from its experienced management team. Mr. Harin Mamlatdarna and Mr. Deepak Chokshi, Directors of DIL, have over 20 years of experience in the dyestuff industry.

DIL registered healthy revenue growth in the recent months. The company booked revenues of Rs.41.22 crore and PAT of Rs.1.00 crore during H1FY2013-14, as compared with revenues of Rs.18.34 crore and PAT of Rs.0.42 crore during the corresponding period of the previous year. DIL witnessed revival in demand from Europe and higher realisation on dyes, which increased from Rs.210 per kilogram in FY2012-13 to Rs.337 per kilogram in H1FY2013-14, on account of supply constraint arising from the shutdown of small units due to sluggish demand environment (in 2009-2012) and stringent pollution control norms. SMERA believes DIL's financial risk profile would continue to benefit from the favourable demand environment in the medium term.

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DIL's pricing power is limited by the intense competition prevalent in the dyestuff and pigments industry. Moreover, the company is exposed to stringent environment regulations. DIL is highly dependent on the fortunes of its end-user industries, which include textile and leather. The company's operations are working capital-intensive, as reflected in gross current asset of around 250 days in FY2012-13. DIL's inventory holding period is stretched at around 90-100 days due to lead time involved in import of raw material and production of finished products. Moreover, the company offers credit of around 100-120 days to its customers. However, SMERA believes DIL's working capital cycle is likely to remain comfortable in the medium term on the back of improving demand scenario. DIL's profit margins are susceptible to volatility in prices of raw material. Although DIL's profitability is exposed to foreign exchange fluctuation risk, the company has a natural hedge (on about ~50 per cent of its exports) due to imports.

Outlook: Stable

SMERA believes that DIL will maintain a stable business risk profile over the medium term on account of its healthy revenue visibility. The outlook may be revised to 'Positive' in case the company registers higher-than-expected revenues and profitability while maintaining a comfortable working capital cycle. Conversely, the outlook may be revised to 'Negative' in case of deterioration in the company's financial risk profile on account slowdown in demand and volatility in raw material prices.

About the company

DIL, incorporated in 1989, is a BSE-listed company engaged in manufacturing and export of acid dyes and direct dyes. DIL has a manufacturing facility in Vatva (Gujarat), with a total installed capacity of 3,200 tonnes per annum. The company caters to the textile and leather industry.

For FY2012-13, DIL registered PAT of Rs.0.85 crore on revenues of Rs.42.52 crore, as compared with PAT of Rs.1.35 crore on revenues of Rs.41.19 crore for FY2011-12. Further, the company registered PAT of Rs.1.00 crore on revenues of Rs.41.22 crore during H1FY2013-14. DIL's net worth stood at Rs.14.03 crore as on March 31, 2013, as compared with Rs.13.18 crore a year earlier.

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SMERA RATINGS LIMITED

Dynamic Industries Limited (DIL)**Rating
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