

Rating Rationale

Dhanalaxmi Roto Spinners Ltd (DRSL)

30 Oct 2018

Brickwork Ratings assigns the ratings **BWR BB+** for the Bank Loan Facilities of **₹. 20.00 Crores** of Dhanalaxmi Roto Spinners Ltd.

Particulars

Facilities	Amount (₹ Crs)	Tenure	Rating *
Fund Based <i>Cash Credit</i>	1.50	Long Term	BWR BB+ Outlook: Stable
Non-fund Based <i>ILC/ FLC & FBN/ IBN</i>	18.50	Short Term	BWR A3
Total	20.00	INR Twenty Crores Only	

*Please refer to BWR website www.brickworkratings.com/ for definition of the ratings

Rating under Credit Watch with Positive / Negative / Developing implications

Rationale/Description of Key Rating Drivers/Rating sensitivities:

BWR has relied upon the three years of audited financial results of the firm upto FY18, publicly available information and information/clarifications provided by the management of Dhanalaxmi Roto Spinners Ltd

The rating draws strength from the rich experience of the promoters, improved financial performance in FY17 and FY18 and strong financial risk profile. The rating has also factored the well-established operations of the firm and its ability to sustain and grow in tough times.

These strengths are offset by its moderate scale of operations, volatility of wood pulp prices and foreign exchange rates, the vulnerability of international trade to changes in government policy and concentration risk in case of customers and suppliers.

Credit Strengths:

- **Growth in total operating income:** DRSL has increased its Total Operating Income every year during the review period.
- **Strong Financial risk profile:** The Company has a comfortable profitability of 3-4% of Operating and Net Profit Margins. The Gearing Ratio of 0.18 times indicates low financial risk.



Credit risks:

- **Moderate Scale of Operations:** The Company has a Net revenue of Rs. 74.31 crores.
- **Shortage and Volatility of wood pulp prices** - Limited access to quality and cost competitive raw material whose prices have started increasing recently
- **Rupee depreciation/ Foreign Exchange Risk-** DRSL is exposed to foreign exchange risk as it imports 90% of its purchases. Any increase/ decrease in the exchange rates can significantly impact the profitability of the Company.
- **Concentration risk of Suppliers and Customers:** The Company purchases 90% of its goods from a single Company in Indonesia and sells 80% of its goods to one company in Ahmedabad.

Key Rating Sensitivities: Going forward, DRSL's rating can be improved based on an increase in the scale of operations, infusion of capital, diversified customer base.

Analytical Approach

For arriving at its ratings, BWR has applied its rating methodology as detailed in the Rating Criteria detailed below (hyperlinks provided at the end of this rationale).

Rating Outlook: *Stable/Positive/Negative*

BWR believes the business risk profile of **Dhanalaxmi Roto Spinners Ltd** will be maintained over the medium term. The 'Stable' outlook indicates a low likelihood of rating change over the medium term. The rating outlook may be revised to 'Positive' in case the revenues and profit show sustained improvement. The rating outlook may be revised to 'Negative' if the revenues go down and profit margins show lower than expected figures.

About the Company

DRSL is a Public Limited company based in Hyderabad, India. The Company was incorporated in 1987 and been has listed on the Bombay Stock Exchange since 1992. The company is engaged in trading of Wood pulp, Paper, Waste Paper and Micro Crystalline Cellulose Powder. Its portfolio consists 99% of Wood pulp, which is mainly used for manufacturing of Plywood and white coating of tablets in Pharma companies.

The directors of the company are Rajkumar Inani, Narayan Inani, Anirudh Inani and Shyamsundar Jakhota. All the directors have prior management experience in the relevant industry and are well educated. DRSL earns its revenue by charging its suppliers a commission of 2-3% on the Wood Pulp global prices. In FY18, the Company traded 7000 tons of wood pulp.

Company Financial Performance

The Company has reported Total Operating Income of Rs.53.07 crores and Rs.74.31 crores in FY17 and FY18 respectively. The Operating Profit Margin/ Net Profit Margin of the Company is 4.39%/ 3.72% and 3.27%/ 3.15% for FY17 and 18 respectively. The margins have slightly decreased on account of higher purchases of raw materials in FY18.

Key Financial Indicators

Key Parameters	Units	2018	2017
Result Type			
Operating Revenue	₹ Cr	74.31	53.03
EBITDA	₹ Cr	2.43	2.33
PAT	₹ Cr	2.34	1.97
Tangible Net worth	₹ Cr	13.16	10.82
Total Debt/Tangible Net worth	Times	0.18	0.08
Current Ratio	Times	1.45	1.43

Rating History for the last three years

S.No	Instrument /Facility	Current Rating			Rating History		
		Type	Amount (₹ Crs)	Rating 2018	2017	2016	2015
	Fund Based	Long Term	1.50	BB+	Not Rated		
	Non Fund Based	Short Term	18.50	A3			
	Total		20.0	₹ Twenty Crores Only			

Status of non-cooperation with previous CRA - CARE (August 2018)

Any other information- None

Hyperlink/Reference to applicable Criteria

- [General Criteria](#)
- [Approach to Financial Ratios](#)
- [Short Term Debt](#)
- [Trading Entities](#)

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For print and digital media

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Note on complexity levels of the rated instrument:

BWR complexity levels are meant for educating investors. The BWR complexity levels are available at www.brickworkratings.com/download/ComplexityLevels.pdf. Investors queries can be sent to info@brickworkratings.com.

About Brickwork Ratings

Brickwork Ratings (BWR), a SEBI registered Credit Rating Agency, accredited by RBI and empaneled by NSIC, offers Bank Loan, NCD, Commercial Paper, MSME ratings and grading services. NABARD has empaneled Brickwork for MFI and NGO grading. BWR is accredited by IREDA & the Ministry of New and Renewable Energy (MNRE), Government of India. Brickwork Ratings has Canara Bank, a leading public sector bank, as its promoter and strategic partner.

BWR has its corporate office in Bengaluru and a country-wide presence with its offices in Ahmedabad, Chandigarh, Chennai, Hyderabad, Kolkata, Mumbai and New Delhi along with representatives in 150+ locations. BWR has rated debt instruments/bonds/bank loans, securitized paper of over ₹ 13,22,500 Cr. In addition, BWR has rated over 7000 MSMEs. Also, Fixed Deposits and Commercial Papers etc. worth over ₹62,000 Cr have been rated.

BWR has rated over 30 PSUs/Public Sector banks, as well as many major private players. BWR has a major presence in ULB rating of nearly 102 cities



DISCLAIMER

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