Rating Rationale **19 June 2020**

DHARTI SPINNING MILL PVT LTD

Brickwork Ratings revises the long term rating /reaffirms the short term ratings for the Bank Loan Facilities of ₹. 16.51 Crores of Dharti Spinning Mill Pvt Ltd.

Particulars

Facility	Amount (₹ Crs)		Tenure	Rating*	
	Previous	Present		Previous (June-2019)	Present
Fund based	**28.32**	**14.45**	**Long Term**	**BWR B+** Stable Issuer not cooperating	**BWR BB-** Stable (Upgraded)
Non-Fund Based	**2.06**	**2.06**	**Short Term**	**BWR A4** Issuer not cooperating	**BWR A4** (Reaffirmed)
Total	**30.38**	**16.51**	**INR Sixteen Crores & Fifty One Lakhs Only**		

*Please refer to BWR website www.brickworkratings.com/ for the definition of the ratings
Complete details of Bank facilities are provided in Annexure-I

RATING ACTION / OUTLOOK

BWR has considered the standalone financials of the Company and essentially relied upon the audited financial statements upto FY19, management certified provisional financials of 9MFY20, projected financials upto FY21 and publicly available information and clarifications provided by the entity's management.

The rating upgrade draws strength from the overall improvement in financial risk profile, comfortable net worth, and modest scale of operations. The Company also benefits from a business experience of the promoters in the line of the textile industry and their strong relationships with customers and suppliers. The ratings are, however, constrained by vulnerable profit margins due to volatility in the cotton prices and highly competitive and working capital intensive nature of the industry.

Going further, risk of stretched liquidity and achieving the estimated sales, are expected to be hit as a result of the COVID epidemic. Relief measures, such as moratorium on debt servicing over a three months period, as notified by Reserve Bank of India (RBI) on 27 March 2020, have been availed by the Company.

BWR believes that the business risk profile will be maintained over the medium term. The 'Stable' outlook indicates a low likelihood of rating change over the medium term.

KEY RATING DRIVERS

Credit Strengths:

- **Extensive experience of promoters in the textile industry–** Established in 2012, DSMPL' operations are managed by Mr Amit Bhalodiya and other two directors, who have more than half a decade of experience in the textile business. The company benefits from longstanding existence in the industry and business supports healthy relationships with customers and suppliers.

- **Moderate financial risk profile:** The Company has witnessed an increase in operating income at Rs. 82.19 Crs in FY19 as compared to TOI of Rs. 76.26 Crs in FY18. As per management certified provisional financials as on 31st March 2020, the company has achieved the revenue of Rs. 75.80 Crs for FY20. As on 31st March 2019, Tangible net worth is comfortable at Rs. 14.13 Crs due to accumulated profits of past years. Gearing has improved from 1.79x in FY18 to 1.36x in FY19, on the back of overall reduction in the debt level. Promoters have infused the funds by way of Unsecured loans of Rs. 3.25 Crs in FY19. Timely extension of the moratorium option as per RBI's COVID-19 relief package by Banks will be a key monitorable.

- **The favourable location of the unit:** DSMPL enjoys a location-specific advantage as the manufacturing unit is located near the cotton-producing belt of India i.e., Morvi-Saurashtra, Gujarat. Also, it helps in lower transportation cost and provides easy access to quality raw material.

Credit risks:

- **Susceptibility of profit to volatility in the raw material price:** Operating profit margins have remained low, reduced marginally from 5.61% to 4.93% due to fluctuation in prices of cotton and net profit margins are low due to high finance costs. Further, the debt protection metrics have remained weak at DSCR at 0.86x and ISCR 1.63x in FY19. Textile Industry's profit margins are highly correlated with fluctuations in cotton prices and are susceptible to risks like the need for adherence to quality, seasonality, crop yield in a particular year etc.

- **Exposed to intense competition in the highly fragmented Indian textile industry:** The industry is characterised by intense competition; also, demand for yarn exported globally, is weak due to COVID-19, which can impact the industry in the short and medium term; however, this impact can be partially offset from domestic demand for apparel.

- **Working capital intensive nature of operations :** The Company's operations are working capital intensive operations as reflected by higher inventory holding period owing to the nature of the business.

RATING SENSITIVITIES

Positive:

Substantial growth in revenue and profitability while maintaining working capital cycle and improvement in gearing and debt protection metrics be key rating positives.

Negative:

Lower than expected growth in operating income, deterioration in gearing and debt coverage metrics, profitability will be key rating sensitivities.

LIQUIDITY POSITION: Adequate

Net Cash accruals improved to Rs.8.40 Crs in FY19 against Rs. 5.79 Crs in FY18 and the Company has adequate liquidity to cover the long term debt obligations in the near term. The working capital intensity was stretched owing to high inventory holding period at 35 days in FY18 to 49 days in FY19, however, the receivable cycle is short. Average Working capital utilization was around 65% of the sanctioned limit in the last six months ending on 30 April 2020. RCPL has opted to avail moratorium benefits under the COVID-19 Relief Package announced by RBI. Post moratorium, 3-months' interest to be paid, as per the scheme. BWR believes that the company's liquidity would continue to be adequate in the near term.

COMPANY PROFILE

Dharti Spinning Mill Private Limited (DSMPL) was incorporated in November 2012 by Mr. Amitkumar Bhalodiya along with two other directors. The company is into cotton spinning activity with an installed capacity 3900 MTPA for 28s and 40s combed hosiery yarn by utilizing 16416 spindles. The registered office and spinning facility is located at Morbi, Gujarat.

KEY COVENANTS OF THE INSTRUMENT/FACILITY RATED : Not Applicable

KEY FINANCIAL INDICATORS (in ₹ Cr)

Key Parameters	Units	FY19	FY18
Result Type		**Audited**	**Audited**
Operating Income	₹ in Cr	82.19	76.26
EBITDA	₹ in Cr	4.05	4.28
Net Profit	₹ in Cr	0.05	-0.04
Tangible net worth	₹ in Cr	14.13	14.04
Debt/Tangible net worth	Times	1.36	1.79
Current Ratio	Times	1.24	1.11

NON-COOPERATION WITH PREVIOUS RATING AGENCY IF ANY: Not Applicable

RATING HISTORY FOR THE PREVIOUS THREE YEARS [including withdrawal and suspended]

Facilities	Current Rating (2020)			Rating History		
	Tenure	Amount (₹ Cr)	Rating	26June2019^	2018	22Dec2017
Fund Based	Long Term	14.45	BWR BB- Stable (Upgraded)	BWR B+ Stable Issuer not cooperating*	-	BWR BB- Stable
Non-Fund Based	Short Term	2.06	BWR A4 (Reaffirmed)	BWR A4 Issuer not cooperating*	-	BWR A4
Total		16.51	INR Sixteen Crores & Fifty One Lakhs Only			

*Issuer did not cooperate; based on the best available information.
^Rating not reviewed advisory issued on 25March2019.

COMPLEXITY LEVELS OF THE INSTRUMENTS

For more information, visit www.brickworkratings.com/download/ComplexityLevels.pdf

Hyperlink/Reference to applicable Criteria

- General Criteria
- Approach to Financial Ratios
- Manufacturing Companies
- Short Term Debt

For any other criteria obtain hyperlinks from website

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Dharti Spinning Mill Pvt Ltd

ANNEXURE I

Details of Bank Facilities rated by BWR

Sl. No.	Name of the Bank	Type of Facilities	Long Term {(₹ Cr)	Short Term (₹ Cr)	Total (₹ Cr)
1	**Bank of Baroda**	**Fund Based :** Cash Credit Term Loan	7.00 7.45	- -	**14.45**
2	**Bank of Baroda**	**Non-Fund Based :** Bank Guarantee	-	2.06	**2.06**
TOTAL					**16.51**

Total INR Sixteen Crores & Fifty One Lakhs Only.

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