

## Dharmdeep Commodities Private Limited

March 11, 2022

### Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Long Term Bank Facilities	3.00	CARE B+; Stable (Single B Plus; Outlook: Stable)	Reaffirmed
Long Term / Short Term Bank Facilities	26.00	CARE B+; Stable / CARE A4 (Single B Plus; Outlook: Stable/ A Four)	Reaffirmed
Short Term Bank Facilities	56.00	CARE A4 (A Four)	Reaffirmed
<b>Total Bank Facilities</b>	<b>85.00</b> <b>(Rs. Eighty-Five Crore Only)</b>		

Details of instruments/facilities in Annexure-1

### Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Dharmdeep Commodities Private Limited (DCPL) continues to remain constrained due to decline in scale of operations with thin profitability inherent in trading business, leveraged capital structure and weak debt coverage indicators. The ratings are further constrained due to its presence in highly fragmented and competitive cotton industry wherein cotton prices are regulated by the government. The ratings continue to derive strength from experience of promoters in cotton trading business, diversified customer and supplier base and adequate liquidity.

### Rating Sensitivities

#### Positive Factors

- Significant increase in scale of operations with TOI along-with improvement in PBILDT margin of more than 3% on a sustained basis
- Improvement in capital structure to overall gearing below 3 times on sustained basis

#### Negative Factors

- Decline in scale of operations with TOI less than Rs.200 crore and PBILDT margin below 0.50%

### Detailed description of the key rating drivers

#### Key Rating Weaknesses

#### **Decline in scale of operations with thin profitability inherent in trading business**

DCPL is into trading of cotton with order backed purchases. The scale of operations has declined over previous year and remained at Rs. 302.52 crores during FY21 as against Rs. 580.77 crores during FY20 as a result of decline in domestic sales during the year as domestic cotton demand was disturbed due to COVID-19 pandemic. However, during 10MFY22(Provisional), DCPL has achieved the TOI of Rs. 359.11 crores.

DCPL has very thin operating margins as it is engaged in trading of cotton bales with no inventory holding as it makes order backed purchases. Although Profit margins have marginally improved but continued to remain thin. PBILDT margin of the company has remained at 1.82% during FY21 which has improved from 1.27% during FY20 due to decline in material costs. Resultantly with lower interest and finance charges, PAT Margin improved in FY21 and remained at 0.74% during FY21 against 0.23% during FY20.

#### **Leveraged capital structure and weak debt coverage indicators**

The capital structure of the company has improved but remained leveraged due to higher reliance on working capital borrowing marked by overall gearing ratio of 11.74x as on March 31, 2021 as against 15.20x as on March 31, 2020. The marginal improvement was on account of improved tangible net worth as on Balance sheet date.

Due to thin profitability with higher reliance on working capital borrowing, Debt coverage indicators have marginally improved but remained weak marked by TDGCA ratio and Interest coverage ratio of 46.33 years and 2.40x respectively during FY21 as against 75.00 years and 1.20x respectively during FY20. The improvement in both the ratios is on account of improvement in GCA levels as well as declined interest and finance costs.

#### **Regulated cotton industry**

DCPL is engaged in trading of cotton bales which are primarily supplied by cotton ginners and supplied to cotton spinners. The operations of DCPL are dependent on the supply scenario of cotton ginners and demand scenario of cotton spinners. The supply of cotton bales from ginners is dictated by the price-parity between price fixed by government and price prevailing in the market. Subsequently the demand of cotton bales from spinners is dependent upon the cotton prices and domestic and export demand for cotton yarn.

<sup>1</sup> Complete definition of the ratings assigned are available at [www.careedge.in](http://www.careedge.in) and other CARE Ratings Ltd.'s publications

### **Presence in fragmented and competitive industry**

Cotton trading industry is highly dominated by small and medium scale players wherein cotton ginners are also involved in cotton trading resulting in highly fragmented nature of the industry. This business provides low value addition in the overall textile value chain due to which players operate on extremely thin margins. Moreover, the competition in the industry remains stiff restricting the profitability margins.

### **Key Rating Strengths**

#### **Experience of promoters in cotton trading business**

DCPL is promoted by Mr. Dharmendra Jain and Mr. Sandip Jain who have experience of over two decades in the field of cotton trading. Before the incorporation of DCPL, the promoters were already associated with the partnership firm M/s Dharmendra Pukhraj and M/s Sandipkumar Dharmendrakumar which are engaged in the same business as DCPL. In DCPL Mr. Sandip handles operations in relation to export sales and Mr. Dharmendra handles domestic sales of the company. DCPL continues to avail the benefits of an MSME (mainly interest subvention) by transferring its domestic sales to these firms.

#### **Geographically diverse client base and supplier base**

DCPL has established client base in both the domestic and international market. The export customers consist of clients in countries like China, Hongkong and Singapore while the domestic customers consist of clients in cities and states like Ahmedabad, Madhya Pradesh, Kathua (J&K), Baddi (Himachal Pradesh) etc. Export sales contributed to 82% of Total operating income (TOI) in FY21 as compared to 33% in FY20. During 10MFY22, the exports contributed to 48% of the total sales.

It has fairly diverse customer base with top 10 customers (Domestic as well as export) forming 92% of TOI in FY21 compared to 66% in FY20. During 10MFY22, the top 10 customer contribution to TOI was around 66%. DCPL mainly sources cotton bales domestically as domestic purchase makes up 68% (FY20: 43%) of its total purchases in FY21.

#### **Liquidity analysis: Adequate**

The liquidity was adequate marked by moderate GCA of Rs. 2.41 crores during FY21 as against negligible debt repayment obligations of FY22. DCPL conducts its trading operations without maintenance of any inventory as all its purchases are order backed and goods are directly dispatched from the supplier to its customer. The collection period had increased from 92 days in FY20 to 116 days in FY21. The longer collection period was due to the company's nature of business involving usage of LC/BD as for their export customers whose tenor is of 90 days, leading to a longer collection period. The current and quick ratio stood similar at 1.05 times as on March 31, 2021. The company has a cash and bank balance of Rs. 29.43 crore as on March 31, 2021 which is mainly margin money/security kept with bank. Cash flow from operating activities have turned negative and remained at Rs. 3.63 crore during FY21.

**Analytical approach:** Standalone

#### **Applicable criteria**

[Criteria on assigning Outlook and credit watch to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Criteria for Short Term Instruments](#)

[Rating Methodology-Wholesale Trading](#)

[Liquidity Analysis of Non-Financial Sector Entities](#)

[Financial ratios-Non-Financial Sector](#)

#### **About the Company**

Incorporated in 2011, Dharmdeep Commodities Private Limited (DCPL) is engaged in trading of cotton bales and yarn in both domestic and international market. DCPL is managed by Mr. Dharmendra Jain and Mr. Sandip Jain who have an experience of over two decades in the field of cotton trading through the partnership firms namely M/s Dharmendra Pukhraj and M/s Sandip Kumar Dharmendra Kumar which are engaged in the same business as of DCPL.

<b>Brief Financials (Rs. crore)</b>	<b>31-03-2020 (A)</b>	<b>31-03-2021 (A)</b>	<b>10MFY22 (Prov.)</b>
Total operating income	580.77	302.52	359.11
PBILD	7.38	5.52	NA
PAT	1.33	2.25	NA
Overall gearing (times)	15.20	11.74	NA
Interest coverage (times)	1.20	2.40	NA

A: Audited, Prov.: Provisional; NA: Not Available

**Status of non-cooperation with previous CRA:** Not Applicable

**Any other information:** Not Applicable

**Rating History for last three years:** Please refer Annexure-2

**Covenants of rated instrument/facility:** Please refer Annexure-3

**Complexity level of various instruments rated for this company:** Please refer Annexure-4

**Annexure-1: Details of Instruments / Facilities**

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based/Non-fund-based-LT/ST		-	-	-	26.00	CARE B+; Stable / CARE A4
Fund-based - LT-Bank Overdraft		-	-	-	3.00	CARE B+; Stable
Fund-based - ST-Bill Discounting/ Bills Purchasing		-	-	-	56.00	CARE A4

**Annexure-2: Rating History of last three years**

Sr. No.	Name of the Instrument/ Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Fund-based/Non-fund-based-LT/ST	LT/ST	26.00	CARE B+; Stable / CARE A4	-	1)CARE B+; Stable / CARE A4 (10-Mar-21)	1)CARE B+; Stable / CARE A4 (06-Mar-20)	1)CARE B+; Stable / CARE A4 (31-Jan-19)
2	Fund-based - LT-Bank Overdraft	LT	3.00	CARE B+; Stable	-	1)CARE B+; Stable (10-Mar-21)	1)CARE B+; Stable (06-Mar-20)	1)CARE B+; Stable (31-Jan-19)
3	Non-fund-based - ST-Forward Contract	ST	-	-	-	1)Withdrawn (10-Mar-21)	1)CARE A4 (06-Mar-20)	1)CARE A4 (31-Jan-19)
4	Fund-based - ST-Bill Discounting/ Bills Purchasing	ST	56.00	CARE A4	-	1)CARE A4 (10-Mar-21)	1)CARE A4 (06-Mar-20)	1)CARE A4 (31-Jan-19)

**Annexure 3: Detailed explanation of covenants of the rated instrument/facilities:** Not applicable

**Annexure 4: Complexity level of various instruments rated for this company**

Sr. No	Name of instrument	Complexity level
1	Fund-based - LT-Bank Overdraft	Simple
2	Fund-based - ST-Bill Discounting/ Bills Purchasing	Simple
3	Fund-based/Non-fund-based-LT/ST	Simple

**Annexure 5: Bank Lender Details for this Company**

To view the lender wise details of bank facilities please [click here](#)

**Note on complexity levels of the rated instrument:** CARE Ratings Ltd. has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to [care@careedge.in](mailto:care@careedge.in) for any clarifications.

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