Dorset Industries Private Limited

September 04,2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term / Short Term Bank Facilities	40.00	CARE A-; Stable / CARE A2+	Revised from CARE BBB+; Stable/CARE A2

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The revision in the ratings assigned to the bank facilities of Dorset Industries Private Limited (DIPL) takes into account overall improvement in financial risk profile of the entity as reflected by increasing scale of operations along with profitability margins and improving capital structure of the company. The rating further draws strengths from the experienced, resourceful and qualified management with long track record of operations followed by strong brand recognition and established marketing arrangements and customer base.

However, the ratings strengths are partially offset by elongated operating cycle, susceptibility of profitability margins to raw material price fluctuations coupled with competition from organised and unorganised players and project risk associated with ongoing project in wholly owned subsidiary, although, same will improve overall financial risk profile as reflected by scale of operations, profitability etc. from next financial year.

Rating sensitivities:

Factors likely to lead to rating actions.

Positive factors

- Improvement in total operating income of above Rs. 600 crores over the medium term on sustained basis.
- Ability of the company to enhance its overall profitability from the current levels with PBILDT margin at 15% and PAT margin at 8%.

Negative factors

- Any increase in the inventory period for more than 80 days leading to further elongation in the operating cycle on a sustained basis.
- Increasing in bank debt at consolidated level beyond Rs 75 crores.

Analytical approach: Consolidated

CARE has taken consolidated approach for the ratings of DIPL with its wholly owned subsidiary DSIPL. The group along with its subsidiary is engaged in the business of manufacturing and distribution of architectural hardware systems and is controlled and managed by common management.

Outlook: Stable

The continuation of "Stable" outlook to the bank facilities of DIPL takes into account continuing capabilities of the management due to its long track record of operations to mitigate the inherent risk related to competitive nature of industry and ongoing project risk.

Detailed description of the key rating drivers:

Key strengths

Experienced, resourceful and qualified management with long track record of operations:

DIPL is being promoted by Mr Rajesh Bansal, founder Chairman and Managing Director of the Dorset Group since 1995. Mr Rajesh Bansal is an SRCC graduate and FMS alumnus directly oversees Dorset's user, product, engagement and revenue growth strategy across all applications at Dorset. Mr Saurabh Bansal and Mr Takshay Bansal, the sons of Mr Rajesh Bansal, are the joint managing directors of the company. Mr Saurabh heads the Strategic Marketing Group (SMC) of the company and is responsible for the marketing initiatives of the Group. Mr Takshay is the head of the Strategic Operations Group (SOG) at Dorset, supervising the manufacturing and developmental initiatives of the company. They are ably supported by an experienced management team comprising of professionals having considerable and relevant experience in important business functions like finance, marketing, production, technology etc.

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Strong Brand Recognition:
Dorset group has been in the architectural hardware business for more than two and a half decades and has an established brand image of "Dorset" in the Indian market. The group has successfully leveraged its brand equity in the Indian market. In September 2019, DIPL entered into a partnership with Samet A.S., one of the established brands of Turkey in furniture accessories, founded in 1973, manufacturing over 3000 products with over 4 decades of experience. DIPL has set up a separate vertical for the new range of products like-Hinge System, Drawer System, Lift Up door System, Sliding Door System and Accessory and Fitting Systems to be sold under "Dorset Samet" brand in India. Dorset, through this partnership, aims to leverage the brand recognition and Samet's expertise in pre-sales guidance, consultancy and project design specifications and advanced technology efficiently in the Indian market.
Established marketing arrangement and customer base:
DIPL has a diversified product portfolio as it manufactures a wide range of locks and security systems, architectural hardware, digital solutions and furniture and kitchen hardware, catering to the need of diverse clientele ranging from hospitality to major realty players. The company is certified as ISO 9001-2015, OHSAS 18001-2008, ISO 14001-2008 and is also being awarded quality certificates by Ministry of Micro, Small and Medium Enterprises and Quality Council of India. DIPL has an established marketing and selling department. Further, the promoters have been in the industry for more than 2 decades and have since established strong relationships with their customers due to strong brand reputation as well. DIPL has an established selling arrangement in the form of channel distribution, institutional sales and exports. DIPL has different customer profile in each segment with no single client contributing large proportion of the total sales of the company. The raw materials for DIPL are primarily metals such as zinc, brass, stainless steel pipes, components like screws, keys etc. and packing material including corrugated boxes, stickers etc. These are majorly sourced domestically with only 3-4% proportion being imported from countries such as Vietnam, Malaysia and other Southeast Asian countries.
Comfortable financial risk profile:
DIPL's scale of operations has grown by 33.74% to Rs. 417.62 crore during FY23 (Provisional, refer to the period of April 01 to March 31) as compared with Rs. 312.26 crore during FY22 (Audited, refer to the period of April 01 to March 31), majorly aided by strong brand image and established distribution network of the Dorset Group. The company purchases certain specialized components like door accessories, hinges, kitchen hardware, electronic safety boxes etc. and manufactures other goods such as locks, handles, springer's, door closers etc. Export comprises 5.46% of revenue from operations and company majorly caters domestic market spread throughout India. Besides, company books its revenue through its distribution network, Institutional sales and OEM sale wherein sales booked through distribution network comprises 58.30% during FY23 followed by institutional sales of 27.68% during FY23 and OEM sales of 8.55% during FY23.
The profitability margins of the company continue to remain moderate and in similar line during FY23 as reflected by PBILDT margin and profit after tax (PAT) margin of 13.43% (PY: 12.62%) and 5.28% (PY: 3.59%), respectively thereby generating gross cash accruals (GCA) of Rs. 37.42 crores during FY23 as compared to Rs. 26.20 crores during FY22. Therefore, due to absolute rise in PBILDT owing to significant rise revenue from operations, interest coverage indicator has also improved as reflected by interest coverage ratio of 9.42x in FY23 from 7.86x in FY22.
Moderate Capital Structure.
The capital structure of the company continues to remain moderate and has improved at the end of FY23 as reflected by the long-term debt to equity ratio and overall gearing ratio of 0.79x(PY: 1.91x) and 2.42x(5.63x), respectively.. The improvement was majorly due to accretion of profits in net worth whereas overall debt level remains in similar line. Company don't have any term liability and there is no utilisation in working capital limits as well and the outstanding debt includes entirely preference shares and unsecured loans from promoters. However, going forward company has planned capex of Rs 66.99 crores in 100% subsidiary which will be funded through term liabilities of Rs 43.83 crores and remaining through equity/unsecured loans infusion by the parent company, thus debt level at consolidated level will increase in during FY24. However despite of the same, the overall gearing is expected to remain moderate due to accretion of profit to net-worth and lower increase in total debt.

Key weaknesses
Elongation in operating cycle:
Operating Cycle of company remains elongated and in similar lines at 94 days as at March 31,2023 against 91 days as at March 31,2022. Elongation in operating cycle was majorly on account of higher inventory days of 69 days during FY23 (PY: 70 days) followed by average collection period of 62 days during FY23 (PY: 71 days). The company is required to maintain large inventory raw materials considering its vast product range as well as finished goods to be maintained to meet demand from customers on time. Generally, company extend credit period of around 75 days to channel partners and around 90 days for both institutional and export sales. On supplier side company also gets some credit period which varies between 40-50 days on an average. Although, due to high cash accruals company repay its creditors earlier leading to lower creditors period thereby increasing overall operating cycle. However, the working capital requirements of the company is funded by the internal accruals and funds brought in by promoters with the company hardly utilizing bank lines, thereby providing enough liquidity cushion for smooth flow of operations going ahead.

Susceptibility of profitability margins to raw material price fluctuations
Metals such as brass, zinc, copper, stainless steel etc. are the key raw materials for DIPL. The prices of raw materials have shown a volatile trend over the years and the adverse movements in their prices shall impact the margins of the company. DIPL manages the price volatility to some extent by carrying out periodic revisions in the prices of its products to the effect of the raw material price changes depending on the prices being offered by the competitors. Going forward, the ability of DIPL to manage the raw material risk and pass on the impact to the customers would be crucial for maintaining its profitability.

Competition from organized and unorganized players:
The architectural hardware industry including the locks, security systems, furniture and kitchen hardware industry is dominated by few organized players, which have strong brand image in the market and thus command major market share of the industry. Moreover, the industry is highly fragmented with over thousand unorganized and small players having 70% of market share, which leads to intense competition and pricing pressure. However, the brand recognition of Dorset coupled with continuous innovation, adoption of new technology, introduction of new verticals and business associations with global leaders of the industry help DIPL provide product differentiation and diversification to its consumers and thus combat competition in the industry.

Project execution and stabilisation risk associated with ongoing project in subsidiary.
Dorset Smart Technologies Private Limited (DSTPL) a fully owned subsidiary of DIPL was incorporated on May 13,2022, with the view to manufacture furniture and kitchen hardware products which include drawer slides and other architectural hardware like door handles, locks etc in the Union Territory of Jammu & Kashmir, under the 'NEW CENTRAL SECTOR SCHEME FOR INDUSTRIAL DEVELOPMENT OF UT OF J&K' issued by Govt. of India Ministry of Commerce & Industry Department for Promotion of Industry & Internal Trade. This will be a backward integration project for DIPL as they are already importing and trading these products and therefore, there is no demand risk in the project as during FY23 they have already traded these products worth of Rs ~30 crores during FY23. The estimated project cost is Rs.66.99 crores which is proposed to be funded through term debt of Rs. 43.83 crores (financial closure achieved) and remaining through contribution by parent in the form of unsecured loans/equity contribution. Presently, the project is at finalisation stage and production is likely to be commenced from April 2024. Till July 30,2023, the company has already incurred around Rs 15-16 crores including cost of land of Rs. 5.65 crores and advance to suppliers for machineries, thus, substantial proportion of own contribution in the project is already brought in and they have achieved financial closure for Rs 43.83 crores.

Liquidity analysis: Strong
The company has earned Gross Cash Accruals (GCA) of Rs. 37.42 crores during FY23 and is projecting to generate GCA of around Rs ~48 crores in FY24 at consolidated level whereas repayment of term loan will start after expiry of two years of moratorium. Furthermore, company also has cash and cash equivalents of Rs. 6.72 crores as at March 31,2023, (PY: Rs. 8.06 crores). The current and quick ratio stood at a moderate level of 1.48x and 0.80x, as on March 31, 2023, as compared with 1.23x and 0.71x as on March 31, 2022, despite of treating unsecured loans from related parties of Rs 67.41 crores as at March 31,2023, as short-term debt. However, there is no utilisation of working capital limits throughout the year and entire working capital requirement is funded through own fund.

Assumptions/Covenants: Not Applicable

Environment, social, and governance (ESG) risks: Not Applicable

Applicable criteria

Policy on default recognition
Consolidation
Factoring Linkages Parent Sub JV Group
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Short Term Instruments
Manufacturing Companies
Wholesale Trading
Policy on Withdrawal of Ratings

About the company and industry

Industry classification

Macro-Economic Indicator	Sector	Industry	Basic Industry
Diversified	Diversified	Diversified	Diversified

Incorporated in 1995, Dorset Group is in the manufacturing and distribution of architectural hardware systems including a diverse portfolio of offerings like door accessories, locks and security systems, digital door, furniture and kitchen hardware, catering to a wide based clientele ranging from hospitality to major realty players and other sectors. Incorporated in December 2017, Dorset Industries Private Limited (DIPL) is engaged in the business of manufacturing and trading of doorware, locking mechanism and glass fixtures and fittings of all sorts. It is being promoted by Mr. Rajesh Bansal, founder Chairman and Managing Director of the Dorset Group. His sons, Mr. Saurabh Bansal and Mr. Takshay Bansal are the joint managing directors. Mr. Saurabh heads the Strategic Marketing Group (SMC) of the company, while Mr. Takshay is the head of the Strategic Operations Group (SOG) at Dorset. The company has one manufacturing unit at Binola, Haryana. Prior to 2017, DIPL operated as Dorset Kaba Security Systems Pvt. Ltd. (DKSSPL), whereby Dorset Group formed a joint venture (JV) in 2007 Kaba Holdings AG (now Dormakaba Holdings AG), a global leader in access control, enterprise data collection and key systems, headquartered in Switzerland. However, in December 2017, the JV partners agreed to dissolve DKSSPL and DIPL, the now flagship company of Dorset Group, entered into Business Transfer Agreement (BTA) with DKSSPL for purchase of the business with effect from April 9, 2018.

Brief Financials* (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	March 31, 2023 (UA)	June 30,2023 (UA)
Total operating income	183.45	312.26	417.64	95.86
PBILDT	23.60	39.41	56.10	10.98
PAT	0.24	11.22	22.06	5.90
Overall gearing (times)	22.34	5.63	2.42	1.94
Interest coverage (times)	4.73	7.86	9.42	8.51

A: Audited UA: Unaudited; Note: 'the above results are latest financial results available'

*Consolidated financial

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: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based/Non-fund-based-LT/ST		-	-	-	40.00	CARE A-; Stable / CARE A2+

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021
1	Fund-based - LT-Term Loan	LT	-	-	-	-	-	1)Withdrawn (02-Feb-21)
2	Fund-based/Non-fund-based-LT/ST	LT/ST*	40.00	CARE A-; Stable / CARE A2+	-	1)CARE BBB+; Stable / CARE A2 (01-Sep-22)	1)CARE BBB; Positive / CARE A3 (07-Jan-22)	1)CARE BBB; Stable / CARE A3 (02-Feb-21)

*Long term/Short term.

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities: Not Applicable

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based/non-fund-based-LT/ST	Simple

Annexure-5: Lender details

To view the lender wise details of bank facilities please click here

Annexure-6: List of Subsidiaries

List of Subsidiaries of Dorset Industries Private Limited		
1	Dorset Smart Technologies Private Limited	100%

Note on the complexity levels of the rated instruments: CARE Ratings 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 for any clarifications.

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About us:

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