

## Shri Dinesh Mills Limited

February 09, 2018

### Ratings

Facilities	Amount (Rs. crore)	Ratings <sup>1</sup>	Rating Action
Long-term Bank Facilities	12.39 (reduced from Rs.16.83 crore)	<b>CARE A; Stable</b> <b>(Single A; Outlook: Stable)</b>	<b>Reaffirmed</b>
Short-term Bank Facilities	4.83	<b>CARE A1+</b> <b>(A One Plus)</b>	<b>Reaffirmed</b>
<b>Total Facilities</b>	<b>17.22</b> <b>(Rupees Seventeen crore and Twenty Two lakh only)</b>		

*Details of instruments/facilities in Annexure-1*

### Detailed Rationale & Key Rating Drivers

The ratings for the bank facilities of Shri Dinesh Mills Limited (SDML) continue to derive strength from the long and established track record of operations in manufacturing of worsted/woolen fabric as well as industrial felt along with vast experience of its promoters in the textile industry. The ratings further derive strength from SDML's highly comfortable liquidity, leverage and debt coverage indicators.

The long term rating, however, continues to be constrained on account of SDML's modest scale of operations, susceptibility of its profitability to volatility in raw material prices and foreign exchange rates, working capital intensive operations and its presence in the highly competitive worsted fabric segment.

SDML's ability to improve its scale of operations and profitability while sustaining its comfortable leverage and liquidity would be the key rating sensitivities.

### Detailed description of the key rating drivers

#### Key Rating Strengths

**Vast experience of promoters & long standing track record of operations:** SDML has a long standing track record of operations of over eight decades in the textile industry. Further, Mr. Bharat Patel, the CMD and Mr. Nimish Patel, MD, also possess vast experience of over three decades in textile manufacturing business. Over the years, SDML has been able to maintain a stable business profile and has further diversified into felt manufacturing having application in paper industry (which now contributes a majority to its turnover). The management team is assisted in the day-to-day operations by qualified and experienced senior level professional team.

**Established operations in manufacturing of worsted fabric and felts:** SDML has two major product divisions, i.e., worsted fabric and felt. Sales from felt division contributed around 62% to SDML's total sales (58% in FY16). SDML manufactures paper makers' felt which finds application in paper, board and newsprint industries. However, SDML's scale of operations continued to remain modest for FY17, primarily on account of conservative management practices.

**Comfortable leverage and debt protection indicators:** During FY17, SDML reported marginal growth of around 2% in its total operating income (TOI) on account of increase in sales of felt (6% y-o-y growth in sales volume), which more than offset the decline in sale of worsted fabric. However, SDML's PBILDT margin declined on account of increased employee costs, which was not passed on to customers amidst intense competition and subdued demand scenario for worsted fabric and resulted into decline in PAT margin. Nevertheless, SDML continued to operate at a highly comfortable leverage as indicated by overall gearing of 0.09x as on March 31, 2017 (0.13x as on March 31, 2016). As a prudent practice, SDML holds significant portion of liquid investments parked either in liquid mutual funds or bank fixed deposits, the value of which has remained higher than the total debt outstanding, making SDML a debt-free company on net-debt basis. Debt coverage indicators also continued to remain comfortable as on March 31, 2017.

<sup>1</sup>Complete definitions of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and in other CARE publications.

**Comfortable liquidity position:** SDML's liquidity continued to remain comfortable, marked by its highly comfortable current ratio of 3.94x as on March 31, 2017. Moreover, SDML had significant amount of liquid investment at its disposal. SDML's entire net working capital requirement was funded either through internal accruals or liquid investments; hence, its working capital limits remained unutilized for the trailing twelve months ended December 2017.

#### Key Rating Weaknesses

**Intense competition in the worsted fabric segment:** The Indian textile industry is highly fragmented in nature with the presence of a large number of players in both organized as well as unorganized sector. Even in the high-end category of worsted fabric, there is intense competition prevailing in the market. Further, change in consumer's buying behavior on account of increasing influence of international fashion trends, increasing disposable incomes and rising confidence level collectively leads to intense competition in the market, resulting in pressure on profitability.

**Risk associated with volatility in raw material prices and foreign exchange rate:** SDML's primary raw materials include yarn, merino wool and polyester, the prices of which are volatile in nature. Further, the intense competition faced by SDML and subdued demand for worsted fabric in the domestic market makes it difficult for SDML to entirely pass on the increase in raw material cost to its customers. As a result, any adverse movement in prices of wool and polyester could adversely affect SDML's profitability. This was also evident by the net loss of Rs.1.00 crore reported by the company in H1FY18, though it reported a cash profit of Rs.2.61 crore. Moreover, SDML imports around 65-70% of its total raw material requirement, which further exposes its profitability to risk associated with fluctuations in foreign exchange rate.

**Analytical approach:** Standalone Approach

#### Applicable Criteria

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

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

[Criteria for Short Term Instruments](#)

[Rating Methodology-Manufacturing Companies](#)

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

#### About the Company

Incorporated in July 1935, Shri Dinesh Mills Limited (SDML) is a Vadodara-based (Gujarat) company promoted by late Mr. Upendra Patel and his family members. The company is presently managed by Mr. Bharat Patel (CMD) and Mr. Nimish Patel (MD). Since 1935, SDML is engaged in the manufacturing of worsted fabrics, which caters to the requirement of high-end suiting segment. Worsted fabrics manufactured by SDML are sold under the brand 'Dinesh', which is well-recognized in the domestic suiting fabric market. In 1966, SDML commenced operations for manufacturing of industrial felts. Felts are technical-textile products made from synthetic fibers and are used as an abrasive/ heat resistant material in the paper industry.

SDML's two major products i.e. worsted fabric and felts contributed 36% and 62% to its total sales respectively in FY17 (refers to the period April 01 to March 31), whereas the contribution of readymade garments' trading to its total sales remained around 2%. SDML's yarn manufacturing facilities are located at Ankleshwar and it has fabric & felt manufacturing units in Vadodara.

In 2005, SDML ventured into the pharmaceutical formulations industry through its 55.52% subsidiary Dinesh Remedies Limited (DRL) which is engaged in manufacturing of empty hard gelatin capsule shells at its factory situated at Mahuvad, Vadodara.

Brief financials of SDML are tabulated below:

Brief Financials (Rs. Crore)	FY16 (A)	FY17 (A)
Total operating income	80.00	81.54
PBILDT	11.23	9.66
PAT	2.90	2.44
Overall gearing (times)	0.13	0.09
Interest coverage (times)	5.11	4.67

A - Audited

Further, as per the unaudited results for H1FY18, SDML reported a total operating income of Rs.41.31 crore and net loss of Rs.1.00 crore.

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

**Any other information:** Not Applicable

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

**Note on complexity levels of the rated instrument:** CARE has classified instruments rated by it on the basis of complexity. This classification is available at [www.careratings.com](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

**Analyst Contact:**

Name: Mr. Harshveer Trivedi

Tel: 079 4026 5610

Mobile: 85111 90020

Email: [harshveer.trivedi@careratings.com](mailto:harshveer.trivedi@careratings.com)

**\*\*For detailed Rationale Report and subscription information, please contact us at [www.careratings.com](http://www.careratings.com)**

**About CARE Ratings:**

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

**Disclaimer**

CARE's ratings are opinions on credit quality and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE has based its ratings/outlooks on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments.

In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

## Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Term Loan-Long Term	-	-	February 2020	7.34	CARE A; Stable
Non-fund-based-Short Term	-	-	-	4.83	CARE A1+
Fund-based-Long Term	-	-	-	5.05	CARE A; Stable

## 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)	Ratings	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Term Loan-Long Term	LT	7.34	CARE A; Stable	-	1) CARE A; Stable (02-Dec-16)	1) CARE A (06-Jan-16)	1) CARE A (26-Dec-14)
2.	Non-fund-based-Short Term	ST	4.83	CARE A1+	-	1) CARE A1+ (02-Dec-16)	1) CARE A1+ (06-Jan-16)	1) CARE A1+ (26-Dec-14)
3.	Fund-based-Long Term	LT	5.05	CARE A; Stable	-	1) CARE A; Stable (02-Dec-16)	1) CARE A (06-Jan-16)	1) CARE A (26-Dec-14)

**CONTACT****Head Office Mumbai****Ms. Meenal Sikchi**

Cell: + 91 98190 09839

E-mail: [meenal.sikchi@careratings.com](mailto:meenal.sikchi@careratings.com)**Ms. Rashmi Narvankar**

Cell: + 91 99675 70636

E-mail: [rashmi.narvankar@careratings.com](mailto:rashmi.narvankar@careratings.com)**Mr. Ankur Sachdeva**

Cell: + 91 98196 98985

E-mail: [ankur.sachdeva@careratings.com](mailto:ankur.sachdeva@careratings.com)**Mr. Saikat Roy**

Cell: + 91 98209 98779

E-mail: [saikat.roy@careratings.com](mailto:saikat.roy@careratings.com)**CARE Ratings Limited****(Formerly known as Credit Analysis & Research Ltd.)**

Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022

Tel: +91-22-6754 3456 | Fax: +91-22-6754 3457 | E-mail: [care@careratings.com](mailto:care@careratings.com)**AHMEDABAD****Mr. Deepak Prajapati**32, Titanium, Prahaladnagar Corporate Road,  
Satellite, Ahmedabad - 380 015

Cell: +91-9099028864

Tel: +91-79-4026 5656

E-mail: [deepak.prajapati@careratings.com](mailto:deepak.prajapati@careratings.com)**BENGALURU****Mr. V Pradeep Kumar**Unit No. 1101-1102, 11th Floor, Prestige Meridian II,  
No. 30, M.G. Road, Bangalore - 560 001.

Cell: +91 98407 54521

Tel: +91-80-4115 0445, 4165 4529

Email: [pradeep.kumar@careratings.com](mailto:pradeep.kumar@careratings.com)**CHANDIGARH****Mr. Anand Jha**SCF No. 54-55,  
First Floor, Phase 11,  
Sector 65, Mohali - 160062  
Chandigarh

Cell: +91 85111-53511/99251-42264

Tel: +91- 0172-490-4000/01

Email: [anand.jha@careratings.com](mailto:anand.jha@careratings.com)**CHENNAI****Mr. V Pradeep Kumar**Unit No. O-509/C, Spencer Plaza, 5th Floor,  
No. 769, Anna Salai, Chennai - 600 002.

Cell: +91 98407 54521

Tel: +91-44-2849 7812 / 0811

Email: [pradeep.kumar@careratings.com](mailto:pradeep.kumar@careratings.com)**COIMBATORE****Mr. V Pradeep Kumar**T-3, 3rd Floor, Manchester Square  
Puliakulam Road, Coimbatore - 641 037.

Tel: +91-422-4332399 / 4502399

Email: [pradeep.kumar@careratings.com](mailto:pradeep.kumar@careratings.com)**HYDERABAD****Mr. Ramesh Bob**401, Ashoka Scintilla, 3-6-502, Himayat Nagar,  
Hyderabad - 500 029.

Cell : + 91 90520 00521

Tel: +91-40-4010 2030

E-mail: [ramesh.bob@careratings.com](mailto:ramesh.bob@careratings.com)**JAIPUR****Mr. Nikhil Soni**304, Pashupati Akshat Heights, Plot No. D-91,  
Madho Singh Road, Near Collectorate Circle,  
Bani Park, Jaipur - 302 016.

Cell: +91 – 95490 33222

Tel: +91-141-402 0213 / 14

E-mail: [nikhil.soni@careratings.com](mailto:nikhil.soni@careratings.com)**KOLKATA****Ms. Priti Agarwal**3rd Floor, Prasad Chambers, (Shagun Mall Bldg.)  
10A, Shakespeare Sarani, Kolkata - 700 071.

Cell: +91-98319 67110

Tel: +91-33- 4018 1600

E-mail: [priti.agarwal@careratings.com](mailto:priti.agarwal@careratings.com)**NEW DELHI****Ms. Swati Agrawal**13th Floor, E-1 Block, Videocon Tower,  
Jhandewalan Extension, New Delhi - 110 055.

Cell: +91-98117 45677

Tel: +91-11-4533 3200

E-mail: [swati.agrawal@careratings.com](mailto:swati.agrawal@careratings.com)**PUNE****Mr. Pratim Banerjee**9th Floor, Pride Kumar Senate,  
Plot No. 970, Bhamburda, Senapati Bapat Road,  
Shivaji Nagar, Pune - 411 015.

Cell: +91-98361 07331

Tel: +91-20- 4000 9000

E-mail: [pratim.banerjee@careratings.com](mailto:pratim.banerjee@careratings.com)

CIN - L67190MH1993PLC071691