# Shri Dinesh Mills Limited

April 03, 2019

**Ratings**

| Facilities | Amount (Rs. crore) | Ratings[1] | Rating Action |
|---|---|---|---|
| Long-term Bank Facilities | 8.62 (reduced from Rs.12.39 crore) | **CARE A-; Stable (Single A Minus; Outlook: Stable)** | **Reaffirmed** |
| Short-term Bank Facilities | 4.83 | **CARE A1 (A One)** | **Reaffirmed** |
| **Total Facilities** | **13.45 (Rupees Thirteen crore and Forty Five lakh only)** | | |

*Details of instruments/facilities in Annexure-1*

**Detailed Rationale & Key Rating Drivers**

The ratings for Shri Dinesh Mills Limited (SDML) continue to derive strength from the vast experience of its promoters in the textile industry, its established operations in industrial felt manufacturing along with its comfortable leverage and liquidity marked by its sizeable free cash and investments.

The ratings, however, continue to remain constrained on account of SDML's modest scale of operations, susceptibility of its profitability to volatility in raw material prices and working capital intensive operations. The ratings also factor in the discontinuation of production of worsted fabrics due to its subdued demand from October 2018, leading to SDML's dependency on a single product, i.e., industrial felt.

SDML's ability to increase its scale of operations along with improvement in 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:*** The promoters of SDML have a vast experience in the textile and industrial felt industry. Mr. Bharat Patel, CMD and Mr. Nimish Patel, MD, possess vast experience of over three decades in the textile industry. The management team is assisted in the daily operations by qualified and experienced senior level professional team.

***Established operations in manufacturing of industrial felt:*** SDML has established operations in manufacturing of industrial felt of over five decades. The product finds application in manufacturing of paper as an abrasive / heat resistant material (consumable product). Over the last few years, SDML's sales volume for industrial felt has increased, but due to decline in sales realization the sales value has remained largely stagnant. The product contributed around two-thirds of SDML's sales in FY18, but with discontinuance of manufacturing of worsted fabrics from October 2018, SDML's fortunes are now entirely dependent on industrial felt.

***Comfortable leverage and debt protection indicators:*** SDML reported stable scale of operations with a total operating income (TOI) of around Rs.79.49 crore in FY18. However, its PBILDT margin declined by 497 bps to 7.30%, mainly on account of increased overhead costs for the worsted fabrics' division which it could not pass on to customers amidst sluggish demand for these type of fabrics. This along with exceptional payments towards voluntary retirement scheme (VRS) for employees translated into a net loss of Rs.5.66 crore during FY18, a trend which continued till H1FY19 till the discontinuation of operations of the worsted fabric division. However, despite these losses, SDML reported a GCA of Rs.0.59 crore in FY18 and Rs.2.25 crore in 9MFY19. Further, SDML continued to operate with a highly comfortable leverage marked by an overall gearing of 0.02x as on December 31, 2018 (0.05x as on March 31, 2018). Further, its liquidity is underpinned by its sizeable free cash and liquid investments balance (Rs.46.18 crore as on December 31, 2018), the value of which remained higher than the total debt outstanding as on that date.

***Comfortable liquidity:*** SDML's liquidity continued to remain comfortable during FY18 and 9MFY19 marked by significant amount of liquid investments at its disposal. Further, SDML's fund-based working capital limits remained almost

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

unutilized for the trailing 12 months ended December 2018. SDML held Rs.38.11 crore of free cash and liquid investments as on March 31, 2018, which further increased to Rs.46.18 crore as on December 31, 2018 with reduction in working capital investments during 9MFY19. Additionally, the company has negligible repayment requirement during FY20 (Rs.1.88 crore p.a.) which is expected to be met through internal accruals.

**Key Rating Weaknesses**

***Subdued demand for worsted fabrics leading to discontinuation of its production:*** Worsted fabrics are wool based blended fabric and are generally used for making high-end suiting materials. SDML's sales of the worsted fabrics declined from Rs.41.03 crore in FY12 to Rs.26.02 crore in FY18 and further to Rs.15.17 crore in 9MFY19, underlining the gradual de-growth in the revenue from the sale of fabric over the last few years. This was largely driven by gradual shift in consumer preferences away from the worsted fabric because of its relatively higher cost compared with other blended fabric and shift towards readymade garments instead of tailored ones. Competitive intensity in the textile industry which is highly fragmented and price sensitivity of customers also contributed to the decline in sale of worsted fabric. Continued decline in the sales of worsted fabrics culminated in SDML discontinuing its production till the time demand conditions improve and opportunity based liquidation of finished worsted fabrics. As the worsted fabrics contributed around one-third of SDML's sales in FY18, discontinuance of its production would make SDML's fortunes dependent on a single product, i.e. industrial felt.

***Risk associated with volatility in raw material prices:*** SDML's primary raw materials include synthetic fibres including polyester. Synthetic fibres are a derivative of crude oil and hence its prices exhibit volatility in line with the movement in crude oil prices. Further, owing to the competition in the industrial felt industry, SDML has limited ability to pass on any adverse movement in prices to its customers. As a result, any adverse fluctuation in raw material costs could affect SDML's profitability.

**Analytical approach:** Standalone

**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, Gujarat based entity promoted by late Mr. Upendra Patel and his family members. Presently, the company is managed by Mr. Bharat Patel (CMD) and Mr. Nimish Patel (MD). SDML commenced its operations with manufacturing of worsted fabrics, which catered to the requirement of high-end suiting segment. In 1966, SDML also started manufacturing industrial felts, which are technical-textile products made from synthetic fibres and are used as an abrasive/heat resistant material in the paper industry. SDML's yarn manufacturing facilities are located at Ankleshwar and felt and fabric manufacturing facilities at Vadodara. In September 2018, SDML announced discontinuation of production for its worsted fabrics (manufacturing facility located at Vadodara) as well as yarns, tops and grey fabrics (located at Ankleshwar). 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) | FY17 (A) | FY18 (A) |
|---|---:|---:|
| Total operating income | 81.61 | 79.49 |
| PBILDT | 10.01 | 5.80 |
| PAT | 2.80 | (5.66) |
| Overall gearing (times) | 0.09 | 0.05 |
| Interest coverage (times) | 4.85 | 3.86 |

*A – Audited;*

Further, as per the provisional results for 9MFY19, SDML reported a total operating income of Rs.55.81 crore and net loss of Rs.1.72 crore, compared with a total operating income of Rs.60.78 crore and net loss of Rs.1.55 crore in 9MFY18.

**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. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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**About CARE Ratings:**
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**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 | 3.57 | 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) | Rating | Date(s) & Rating(s) assigned in 2018-2019 | Date(s) & Rating(s) assigned in 2017-2018 | Date(s) & Rating(s) assigned in 2016-2017 | Date(s) & Rating(s) assigned in 2015-2016 |
| 1. | Term Loan-Long Term | LT | 3.57 | CARE A-; Stable | 1)CARE A-; Stable (10-Oct-18) | 1)CARE A; Stable (09-Feb-18) | 1)CARE A; Stable (02-Dec-16) | 1)CARE A (06-Jan-16) |
| 2. | Non-fund-based-Short Term | ST | 4.83 | CARE A1 | 1)CARE A1 (10-Oct-18) | 1)CARE A1+ (09-Feb-18) | 1)CARE A1+ (02-Dec-16) | 1)CARE A1+ (06-Jan-16) |
| 3. | Fund-based-Long Term | LT | 5.05 | CARE A-; Stable | 1)CARE A-; Stable (10-Oct-18) | 1)CARE A; Stable (09-Feb-18) | 1)CARE A; Stable (02-Dec-16) | 1)CARE A (06-Jan-16) |

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