

## Shri Dinesh Mills Limited

October 10, 2018

### Ratings

Facilities	Amount (Rs. crore)	Ratings <sup>1</sup>	Rating Action
Long-term Bank Facilities	12.39	CARE A-; Stable (Single A Minus; Outlook: Stable)	Revised from CARE A; Stable (Single A; Outlook: Stable)
Short-term Bank Facilities	4.83	CARE A1 (A One)	Revised from CARE A1+ (A One Plus)
<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 revision in the ratings assigned to the bank facilities of Shri Dinesh Mills Limited (SDML) takes into account the continued weakening of its business and financial profile on account of stagnant income from its felt division amidst higher overhead costs translating into pressure on its profitability and cash accruals, thereby impacting its debt coverage indicators. The revision in the ratings also factor in the discontinuation of production of worsted fabrics due to its subdued demand, leading to SDML's dependency on a single product, i.e., industrial felt.

The ratings 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, continue to remain constrained on account of SDML's modest scale of operations which are further expected to decline on account of discontinuation of production for worsted fabrics, susceptibility of its profitability to volatility in raw material prices & foreign exchange rates and working capital intensive operations.

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

**Continued weakening of business & financial profile:** A majority of SDML's sales is generated from manufacturing of industrial felt and worsted fabrics. In FY18, industrial felt contributed around two third of SDML's sales, while the balance was from sale of worsted fabrics. The sales of industrial felt remained stagnant at around Rs.50 crore over the last few years, as the marginal increase in production volume was offset by lower sales realizations. This was largely on account of the weakness in the demand for industrial felt despite the robust increase in paper production over the last few years and SDML's low bargaining power vis-à-vis its customers. The stagnant income from industrial felt and declining income from worsted fabrics along with rising overhead costs has led to pressure on SDML's profitability, which has declined over the last few quarters and reached 0.09% in Q1FY19.

A trend of SDML's sales, profitability and debt coverage indicators over the last few quarters is given below:

Quarter	FY17				FY18				FY19
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Total Op. Income	17.48	22.89	18.01	24.84	17.57	22.46	19.46	21.45	16.79
PBILDT	0.46	5.83	3.43	1.76	(1.29)	5.04	3.32	0.19	0.02
Exceptional Items*	-	-	-	-	-	(1.01)	(1.99)	(2.18)	(0.62)
PAT	(1.70)	3.55	1.16	(0.22)	(3.22)	2.22	(0.56)	(4.11)	(1.95)
Employee costs**	6.69	7.37	7.01	7.51	6.99	8.83	8.70	9.87	7.24
PBILDT margin (%)	2.63	25.47	19.04	7.09	(7.34)	22.42	17.06	0.89	0.09
PAT margin (%)	(9.73)	15.51	6.44	(0.89)	(18.33)	9.88	(2.88)	(19.16)	(11.61)
Interest Cov. (x)	0.88	11.43	6.24	3.67	(3.15)	12.91	9.49	0.54	0.05
ROCE (%)	3.05				(4.09)				#(9.18)

\* payment towards VRS to employees; \*\* incl. VRS payments; # annualized;

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

This decline in profitability along with payment of Rs.5.80 crore over the last four quarters ended Q1FY19 towards voluntary retirement scheme (VRS) for employees led to lower cash accruals for the company and weakened its debt coverage indicators, as evidenced by interest coverage of 0.05x in Q1FY19. Also, SDML's return on capital employed (ROCE) was negative in FY18 and Q1FY19 due to its subdued profitability and declining scale of operations. SDML's TD/GCA deteriorated from 0.99x in FY17 to 7.58x in FY18, while it reported a cash loss in Q1FY19.

**Subdued demand for worsted fabrics leading to discontinuation of its production:** Worsteds fabrics are wool based blended fabric and are generally used for making high-end suiting materials. SDML's sales of the worsted fabrics declined to Rs.26.02 crore in FY18 and further to Rs.3.70 crore in Q1FY19, from Rs.41.03 crore in FY12, underlining the gradual de-growth in the revenue from the sale of fabric over the last few years. A trend of SDML's sales of worsted fabric is given below:

FY	FY12	FY13	FY14	FY15	FY16	FY17	FY18	Q1FY19
Sales (Rs. Crore)	41.03	37.99	35.47	29.60	32.41	30.14	26.02	3.70

This has largely been on account of gradual shift in consumer preferences away from the blended 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 sensitive customers also contributed to the decline in sale of worsted fabric. The continued decline in the sales of worsted fabrics culminated in SDML discontinuing its production till the time demand conditions improve. As the worsted fabrics contributed around one-third of SDML's sales in FY18, discontinuance of its production would lead to further decline in its scale of operations to around Rs.60 crore (estimated in FY19) and make SDML's fortunes dependent on a single product, i.e. industrial felt. While the discontinuation of production for worsted fabrics is expected to prevent a further decline, the overall profitability is expected to remain subdued amidst higher overhead costs, including employee costs.

#### Key Rating Strengths

**Vast experience of promoters & established operations in industrial felt:** 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 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 and it contributed around two-thirds of SDML's sales in FY18.

**Comfortable leverage and liquidity:** SDML continued to operate at a comfortable leverage marked by an overall gearing of 0.06x as on June 30, 2018 (0.09x as on March 31, 2017). Further, its liquidity is underpinned by its sizeable free cash and liquid investment balance (Rs.39.90 crore as on June 30, 2018), the value of which has remained higher than the total debt outstanding as on that date. Further, its working capital limits remained unutilized during the last 12 months ended September 2018.

#### Other Weaknesses

**Risk associated with volatility in raw material prices and foreign exchange rate:** 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, it has limited ability to pass on any adverse movement in prices to its customers, exhibited by the continuous decline in its sales realization over the last few years. Further, SDML also imports raw materials, which exposes its profitability to unfavorable changes in forex rates.

**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 company 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).

Brief financials of SDML are tabulated below:

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	81.54	80.95
PBILDT	9.66	7.26
PAT	2.44	(5.66)
Overall gearing (times)	0.09	0.05
Interest coverage (times)	4.67	4.83

A: Audited

Further, as per the unaudited results for Q1FY19, SDML reported a total operating income of Rs.16.78 crore and net loss of Rs.1.97 crore as against total operating income of Rs.17.57 crore and loss of Rs.3.22 crore in Q1FY18.

**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.

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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	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)	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	7.34	CARE A-; Stable	-	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+ (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 (09-Feb-18)	1)CARE A; Stable (02-Dec-16)	1)CARE A (06-Jan-16)

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