Shri Dinesh Mills Limited

December 13, 2019

Ratings

Sr. No.	Facilities	Amount (Rs. crore)	Ratings[1]	Rating Action
(i)	Long-term Bank Facilities	-	-	**Revised from CARE A-; Stable to CARE BBB+; Stable and simultaneously withdrawn**
(ii)	Short-term Bank Facilities	-	-	**Revised from CARE A1 to CARE A2+ and simultaneously withdrawn**
(iii)	Long-term Bank Facilities	-	-	**Withdrawn**
	Total Facilities	-		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

For the bank facilities of Shri Dinesh Mills Limited (SDML) at (i) and (ii) above, CARE has revised the ratings from CARE A-; Stable (Single A Minus; Outlook: Stable) to CARE BBB+; Stable (Triple B Plus; Outlook: Stable) and from CARE A1 (A One) to CARE A2+ (A Two Plus) and has simultaneously withdrawn these ratings with immediate effect. The above action has been taken at the request of SDML along with 'No Objection Certificate (NOC)' and 'No Dues Certificate (NDC)' received from the bank(s) that have extended the facilities rated by CARE. Furthermore, CARE has also withdrawn the rating of the bank facilities at (iii) above on receipt of NDC from the concerned bank(s) as these facilities have been repaid in full by the company and there is no amount outstanding against these bank facilities.

The revision in the ratings assigned to the bank facilities of SDML prior to its withdrawal takes into account the subdued operational and financial performance of the company whereby it has reported de-growth in its total operating income (TOI) by 10% during FY19 and 28% during H1FY20 on y-o-y basis along with modest profitability. The de-growth in its TOI was largely due to SDML's dependency on single product i.e. industrial felt post discontinuation of operation of its worsted fabric business from October 2018 as well as stagnant performance of its industrial felt business. Its modest profitability is on account of high competitive intensity which restricts its ability to fully pass-on increase in raw material cost; along with high overhead cost of the company.

The ratings of 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/bank balance and marketable investments.

The ratings, however, continue to remain constrained on account of susceptibility of its profitability to volatility in raw material prices and large working capital requirement due to elongated operating cycle.

Detailed description of the key rating drivers

Key Rating Strengths

Vast experience of promoters & long standing track record of operations in industrial felt: The promoters of SDML have 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 team. 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).

Comfortable leverage, liquidity and debt coverage indicators: SDML continued to operate at highly comfortable leverage as indicated by overall gearing of 0.01x as on March 31, 2019. Debt coverage indicators too remained comfortable marked by PBILDT interest coverage of 8.42 times and TD/GCA of 0.17 times in FY19 largely due to very low reliance on debt.

SDML also has healthy liquidity wherein it holds significant portion of its liquid investments either in liquid mutual funds or bank fixed deposits. As on March 31, 2019, company held liquid investment and free cash and bank balance of Rs.50.74 crore which further increased to Rs.57.57 crore as on September 30, 2019. Over the past years, the book value of these liquid investments has remained higher than the total debt outstanding. Moreover, the company does not have any long term debt outstanding as on September 30, 2019 hence there are no scheduled term debt repayment obligations. Further, its entire net working capital requirement was funded either through internal accruals or available liquidity. Also, the utilization of its fund based working limits remained almost unutilized for the trailing twelve months ended October 2019 which provides further cushion to its liquidity.

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

Key Rating Weaknesses

Stagnant total operating income during last few years which further declined during FY19 and H1FY20 to a very modest level: Over the last few years, the company has witnessed stagnant performance in terms of its total operating income. Further, it discontinued the worsted fabric segment from October 2018 due to its weak operating performance which led to further decline in its TOI to Rs.71 crore during FY19. Moreover, during H1FY20, the company reported sharp decline in its TOI to a very modest level of Rs.27 crore as against Rs.37 crore during H1FY19 largely on account of discontinued operations of worsted fabric. Additionally, over the past few years, the sales of its continuing operations of industrial felt segment has also remained stagnant at around Rs.50 crore annually as the decline in average sales realizations has offset the increased volumes. Moreover, this has also led to product concentration risk as the company's future is dependent on a single product, i.e. industrial felt.

Modest profitability margin: The profitability margin of the company has also steadily declined over the years largely due to weak operating performance of worsted fabrics. Even after discontinued operations of its worsted fabric segment, its PBILDT margin continued to remain at modest level of approximately 11-12% during FY19 and H1FY20 due to high competitive intensity in its industrial felt business and high overhead costs. Further, as a part of its exercise to discontinue the worsted fabrics division, SDML provided voluntary retirement & separation scheme (VRS) to the personnel of worsted fabrics division. SDML made a payment of Rs.5.17 crore during FY18 and Rs.2.76 crore during FY19 towards VRS, which resulted in loss at PAT level during FY18 and marginal net profit of Rs.0.19 crore in FY19. It continued to report a modest net profit of Rs.0.62 crore during H1FY20.

Large working capital requirement: SDML had a long inventory holding period of 144 days in FY19 on account of its dependence on imported raw material, which has a lead time of around 4-5 months, resulting in an operating cycle of 173 days for FY19. Despite some contraction in SDML's operating cycle during FY19 on account of reduction in inventory levels due to discontinuation of production of worsted fabrics, it continued to remain long. Further, it is expected that going forward, SDML would not be dependent upon imported raw materials which coupled with gradual liquidation of finished goods inventory of worsted fabrics, could result in further contraction in its operating cycle going forward.

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:
Policy on Withdrawal of ratings
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, 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.
Currently, SDML is engaged in manufacturing single product i.e. industrial felt at its plant located in Vadodara post discontinuation of production of worsted fabrics (manufacturing facility located in Vadodara) as well as yarn, tops and grey fabrics (located in Ankleshwar) from October 2018.

Brief Financials (Rs. crore)	FY18 (Aud.)	FY19 (Aud.)
Total operating income	79.35	71.02
PBILDT	5.80	8.00
PAT	(5.66)	0.19
Overall gearing ratio (times)	0.05	0.01
PBILDT Interest coverage ratio (times)	3.86	8.42

As per un-audited results, the company has earned a total operating income of Rs.26.59 crore with PAT of Rs.0.62 crore during H1FY20 as against TOI of Rs.36.86 crore with net loss of Rs.2.06 crore during H1FY19.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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

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	-	-	-	0.00	Withdrawn
Non-fund-based-Short Term	-	-	-	0.00	Revised from CARE A1 to CARE A2+ and simultaneously withdrawn
Fund-based-Long Term	-	-	-	0.00	Revised from CARE A-; Stable to CARE BBB+; Stable and simultaneously withdrawn

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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Term Loan-Long Term	LT	-	Withdrawn	1)CARE A-; Stable (03-Apr-19)	1)CARE A-; Stable (10-Oct-18)	1)CARE A; Stable (09-Feb-18)	1)CARE A; Stable (02-Dec-16)
2.	Non-fund-based-Short Term	ST	-	Withdrawn	1)CARE A2+ (13-Dec-19) 2)CARE A1 (03-Apr-19)	1)CARE A1 (10-Oct-18)	1)CARE A1+ (09-Feb-18)	1)CARE A1+ (02-Dec-16)
3.	Fund-based-Long Term	LT	-	Withdrawn	1)CARE BBB+; Stable (13-Dec-19) 2)CARE A-; Stable (03-Apr-19)	1)CARE A-; Stable (10-Oct-18)	1)CARE A; Stable (09-Feb-18)	1)CARE A; Stable (02-Dec-16)

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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