May 24, 2023

# Dolly Exim Private Limited: Ratings reaffirmed

## Summary of rating action

| Instrument* | Previous Rated Amount (Rs. crore) | Current Rated Amount (Rs. crore) | Rating Action |
|---|---|---|---|
| **Long-term fund-based – Overdraft** | 8.20 | 8.20 | [ICRA]B(Stable); reaffirmed |
| **Long-term fund-based – Term loan** | 9.80 | 9.80 | [ICRA]B(Stable); reaffirmed |
| **Total** | **18.00** | **18.00** | |

**Instrument details are provided in Annexure-I*

## Rationale

The reaffirmation of the ratings of Dolly Exim Private Limited (DEPL) continues to factor in the pressure on the company's scale of operations and its weak profitability owing to stiff competition and low value-addition in the nature of its trading business that resulted in modest accruals. Despite some growth, DEPL's top line continued to stay below the pre-pandemic level with revenues of ~Rs. 17.5 crore[1] in FY2023. Further, the ratings remain constrained by its weak financial profile marked by a leveraged capital structure with high reliance on external debt and low net worth, resulting in weak coverage indicators. Moreover, DEPL's financial flexibility is constrained by the significant loans and advances extended to third parties and suppliers, which have resulted in high reliance on external working capital borrowings. Nonetheless, the interest income received on these loans and advances provides some support to its profitability. ICRA also notes the qualification in audit report mentioning the understatement of losses in FY2022 due to non-provisioning for doubtful long-term loans and advances of Rs. 6.35 crore. Further qualifications have also been made regarding the non-provisioning for the possible losses due to erosion in the value of investment in the shares of a listed company as well as for non-provisioning of accrued gratuity liability.

The rating, however, favourably factors in DEPL's established operational track record and extensive experience of its promoters in the textile trading business.

The Stable outlook on the rating reflects ICRA's opinion that the company will continue to benefit from its established relationships with its customers, enabling it to register steady revenue growth.

## Key rating drivers and their description

### Credit strengths

**Established operational track record of the company and extensive experience of its promoters in the industry –** Incorporated in 1978, DEPL has an extensive operational track record in trading of grey yarn and fabric. Further, the company continues to benefit from the extensive experience of its promoter, Mr. Vinod Deora, in the textile business.

### Credit challenges

**Weak financial risk profile as reflected by low profitability indicators, leveraged capital structure and weak debt coverage indicators –** Despite some improvement, DEPL's top line continues to remain modest at ~Rs. 17.5 crore (as per provisional financials) in FY2023, considerably lower than its pre-pandemic revenues. Moreover, in line with the trend in recent years,

[1] *As per provisional financials*

DEPL reported an operating loss in FY2022, with its operating profitability estimated to remain under pressure in FY2023 as well. With lower accruals and higher dependence on external debt, its capital structure continues to remain highly leveraged, translating into weak debt protection metrics.

**Sizeable loans and advances extended to third parties restrict financial flexibility –** The company's financial flexibility continues to remain constrained on account of the large quantum of loans and advances extended to third parties and various suppliers. As these advances have no fixed repayment schedule, any delays in retrieving the loans/interest on it, or any further increase in the loan amount outstanding could impact DEPL's cash flows. Nonetheless, the interest income on such loans and advances provides some support to its profitability.

**Limited pricing flexibility due to high competition in business –** Operating in the fabric trading business, DEPL faces stiff competition from unorganised and organised players, which in turn limits its pricing flexibility and bargaining power with customers, putting pressure on its revenues and margins. Further, the low value-addition in the nature of the trading business restricts its profit margins.

**High geographical and customer concentration risks –** With operations spread largely across Maharashtra and Gujrat, DEPL is exposed to high geographical concentration risk. Further, it's customer concentration is also high with its top five customers accounting for more than 90% of its sales in FY2023.

**Qualifications in audit report –** In line with the past financial year, in the audit report of FY2022 also, the auditor has given a qualified opinion with respect to three points. First, regarding the non-provisioning of long-term loans and advances of Rs. 6.35 crore considered doubtful of recovery. Second, for the non-provisioning of a possible loss owing to erosion in the value of investment (amount is not ascertainable) in the shares of a listed company. Lastly, for the non-provisioning of accrued gratuity liability, which was not in accordance with the accounting standard. Also, the auditor was unable to comment on the resultant effect on liabilities and P&L as the amount is not ascertained.

## Liquidity position: Poor

DEPL's liquidity position continues to remain poor on account of low internal accrual generation, minimal free cash balances and with almost fully utilised working capital bank lines. Further, DEPL's annual debt repayment stands at ~Rs. 1.2–1.5 crore in the near to medium term, which is relatively higher than the anticipated generation of cash accruals. Nonetheless, the promoters have extended unsecured loans to provide some support to its liquidity profile.

## Rating sensitivities

**Positive factors –** ICRA could upgrade DEPL's rating if there is a sustained growth in its operating income, along with improved profitability and if the company recovers the doubtful long-term loans and advances, which strengthens the coverage ratios and liquidity position.

**Negative factors –** Pressure on DEPL's rating could arise if there is a pressure on revenues and/ or a net worth erosion due to provisioning of doubtful long-term loans and advances, and investment write-offs.

## Analytical approach

| Analytical Approach | Comments |
|---|---|
| **Applicable rating methodologies** | Corporate Rating Methodology<br>Rating Methodology for Trading companies |
| **Parent/Group support** | Not applicable |

| Consolidation/Standalone | The rating is based on standalone financial statements of the company. |
|---|---|

## About the company

Incorporated in 1978 by Mr. Vinod Deora, DEPL is primarily involved in the trade of grey yarn and fabric for suiting and shirting. The company operates in Maharashtra and Gujarat and enjoys established relationships with most of its customers and suppliers. Apart from fabric trading, it extends loans and advances to suppliers and third parties. The interest received from loans and advances contributes to around 5-10% of the company's total revenues (operating and non-operating).

### Key financial indicators (audited)

| DEPL (Standalone) | FY2021 | FY2022 |
|---|---|---|
| Operating income | 8.5 | 10.2 |
| PAT | 0.4 | -0.9 |
| OPBDIT/OI | -7.0% | -2.5% |
| PAT/OI | 4.2% | -9.2% |
| Total outside liabilities/Tangible net worth (times) | 2.3 | 2.6 |
| Total debt/OPBDIT (times) | -32.5 | -76.8 |
| Interest coverage (times) | -0.3 | -0.1 |

*PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore; Financial ratios in the report are ICRA adjusted figures and may not be directly comparable with results reported by the company in some instances*

### Status of non-cooperation with previous CRA: Not applicable

### Any other information: None

## Rating history for past three years

| | Instrument | Current rating (FY2024) | | | | Chronology of rating history for the past 3 years | | |
|---|---|---|---|---|---|---|---|---|
| | | Type | Amount rated (Rs. crore) | Amount outstanding as of Mar 31, 2023 (Rs. crore) | Date & rating in FY2024 | Date & rating in FY2023 | Date & rating in FY2022 | Date & rating in FY2021 |
| | | | | | May 24, 2023 | May 23,2022 | - | Feb 26,2021 |
| 1 | Overdraft | Long term | 8.20 | - | **[ICRA]B(Stable)** | [ICRA]B(Stable) | - | [ICRA]B (Stable); Removed from Issuer Not Cooperating Category |
| 2 | Term Loan | Long term | 9.80 | 9.50 | **[ICRA]B(Stable)** | [ICRA]B(Stable) | - | [ICRA]B (Stable); Removed from Issuer Not Cooperating Category |

## Complexity level of the rated instruments

| Instrument | Complexity Indicator |
|---|---|
| Long-term fund-based – Overdraft | Simple |
| Long-term fund-based – Term Loan | Simple |

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: Click Here

## Annexure I: Instrument details

| ISIN | Instrument Name | Date of Issuance | Coupon Rate | Maturity | Amount Rated (Rs. crore) | Current Rating and Outlook |
|---|---|---|---|---|---|---|
| **NA** | **Overdraft** | NA | NA | NA | 8.20 | [ICRA]B (Stable) |
| **NA** | **Term loan** | FY2018-FY2022 | 9.25-10.35% | FY2030 | 9.80 | [ICRA]B (Stable) |

*Source: Company*

## Annexure II: List of entities considered for consolidated analysis – Not Applicable

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## About ICRA Limited:

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