

August 03, 2017

Dileep Industries Private Limited

Summary of rated instruments

Instrument [^]	Rated amount (in crore)	Rating Action
Short-term Fund-based – Packing credit	16 (enhanced from 12)	[ICRA]A3+; reaffirmed
Short-term Fund Based – FDB/FBE*	14 (enhanced from 6)	[ICRA]A3+; reaffirmed
Total	30.00	

*Foreign demand bill/ foreign bill of exchange

[^]Instrument details are provided in Annexure-1

Rating action

ICRA has reaffirmed the short-term rating at [ICRA]A3+ (pronounced ICRA A three plus) on the Rs. 30-crore (enhanced from Rs 18-crore) bank limits of Dileep Industries Private Limited (DIPL).

Rationale

ICRA's rating continues to take into account DIPL's established presence in the handicraft export business and its established relationships with reputed clients like Target Corporation, Pier 1 Imports, Cost Plus Inc. etc., which has resulted in repeat orders. The rating also derives comfort from the consistent improvement in the company's operating income (OI) year on year. Moreover, its decent profitability, coupled with relatively low gearing levels in FY2017, has led to healthy debt protection indicators.

The rating, however, is constrained by the company's exposure to geo-political risk with most of the export income coming from clients in the US and some exposure to Europe, which is subject to economic uncertainty. Also, the intensely competitive nature of the industry and vulnerability of DIPL's profitability to fluctuations in raw material prices are negatives. ICRA also takes into consideration an increase in the credit period provided to its major client, which is likely to increase its working capital cycle, going forward. Further, the ratings take into account the risk of adverse movement in foreign exchange rates faced by the company. However, it has an active hedging policy in place to mitigate this risk.

Going forward, the company's ability to maintain its operating profit margins, to reduce its geographical concentration risk and manage its working capital effectively would be the key rating sensitivities.

Key rating drivers

Credit strengths

- **Reputed client profile including Target Stores, H&M and Cost Plus (U.S.)** - DIPL is an established player in the handicraft export industry and has an established relationship with its reputed client base including Target Corporation, Pier 1 Imports, IMAX Corporation etc. The company exports to the US and European markets. Healthy demand from clients in the US for handicraft products has helped the company in securing repeat orders from its clients.

- **Increase in OI; solid profit over the past few years** - The company has witnessed a steady increase in its OI year on year driven by higher volumes, given the healthy overseas demand. The company has also witnessed steady operating margins of 10-11% over the past few years along with steady net margins of approximately 6%.
- **Low gearing and healthy coverage indicators** – The company’s healthy profitability and low gearing of 0.76 times as on March 31, 2017 have resulted in strong debt-coverage indicators, with NCA/Total Debt at 22%, interest coverage of 5.65 times and Total Debt/OPBDITA of 1.48 times.
- **Favourable government policies for the handicrafts industry** - The handicraft industry enjoys favourable government policies on export with rate of duty drawback at ~5%. The Government also offers other incentives, such as the refund of the service tax paid to clearing and forwarding agents as well as some other benefits.

Credit weaknesses

- **Moderately high customer concentration** - The company faces moderate client-concentration risk with its top five customers accounting for ~60% of its total sales and its top three customers accounting for 49% of its total sales in FY2017. However, the risk is mitigated by the fact that the company has been supplying goods to these customers for a long period of time. The company has been able to secure repeat orders from all these customers.
- **Intense industry competition due to low capital investment and entry barriers** – The company being a moderate-sized player faces intense competition from other handicraft exporters. While DIPL benefits to an extent on account of the Group’s operational track record of two decades and established customer base, its pricing flexibility is limited on account of the stiff competition in the industry.
- **Exposure to forex risk as most of the sales are foreign currency denominated; risk is mitigated by an active hedging policy in place** - The company faces high geographical-concentration risk as most of its sales are to the US. Since most of the sales are in the form of exports, the company is exposed to the risk of foreign exchange fluctuations. The company primarily sells goods in USD. However, to mitigate the risks associated with the foreign exchange fluctuations, the company has an active hedging policy in place.

Analytical approach

For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria

[Corporate Credit Ratings: A Note on Methodology](#)

About the company

DIPL was incorporated in 2004 and is a part of the Dileep Group, which is involved in manufacturing, trading and exporting wooden handicraft items since 1988. The company has established seven units for the manufacture and design of handicrafts, out of which three units are in Jodhpur and four units are in Jaipur. The company mainly exports handicraft items to the US and European markets.

Particulars	Unit	FY2015	FY2016
Operating income (OI)	Rs crore	112.81	121.86
Profit after tax (PAT)	Rs crore	6.52	6.11
OPBDITA/ OI	%	10.44%	7.98%
ROCE	%	33.03%	26.72%
Total Debt/Tangible net worth	Times	1.09	2.10
Total Debt/OPBDITA	Times	1.88	3.08
Interest coverage	Times	4.61	4.38
NWC/ OI	%	23%	29%

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years

Table

S. No	Name of Instrument	Current Rating (2018)			Chronology of Rating History for the past 3 years			
		Type (Long Term/ Short Term)	Rated amount (Rs. crore)	Month-year & Rating	Month-year & Rating in FY2017	Month-year & Rating in FY2016	Month-year & Rating in FY2015	
				Aug 2017	July 2016	March 2016	July 2014	
1	Fund-based Packing credit	Short Term	16.00	[ICRA]A3+	[ICRA]A3+	[ICRA]A3+; suspended	[ICRA]A3+	
2	Fund-based FDB/ FBE	Short Term	14.00	[ICRA]A3+	[ICRA]A3+	[ICRA]A3+; suspended	[ICRA]A3+	

Complexity levels of rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1
Instrument Details

Instrument	Date of Issuance/ Sanction	Coupon Rate	Maturity	Amount Rated (Rs crore)	Current Rating and Outlook
Fund-based Packing credit	-	-	-	16.00	[ICRA]A3+
Fund-based FDB/ FBE	-	-	-	14.00	[ICRA]A3+

Contact Details

Analyst Contacts

Sabyasachi Majumdar

+0124-4545 304

sabyasachi@icraindia.com

Amit Arora

+0124-4545 318

amita@icraindia.com

Manish Ballabh

+0124-4545 812

manish.ballabh@icraindia.com

Shubham Goyal

+0124- 4545 386

shubham.goyal@icraindia.com

Relationship Contact

Jayanta Chatterjee

+91 80 4332 6401

jayantac@icraindia.com

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**Registered Office****ICRA Limited**

1105, Kailash Building, 11th Floor, 26, Kasturba Gandhi Marg, New Delhi 110001
Tel: +91-11-23357940-50, Fax: +91-11-23357014

Corporate Office**Mr. Vivek Mathur**

Mobile: +91 9871221122

Email: vivek@icraindia.com

Building No. 8, 2nd Floor, Tower A, DLF Cyber City, Phase II, Gurgaon 122002
Ph: +91-124-4545310 (D), 4545300 / 4545800 (B) Fax; +91- 124-4050424

Mumbai**Mr. L. Shivakumar**

Mobile: +91 9821086490

Email: shivakumar@icraindia.com

3rd Floor, Electric Mansion
Appasaheb Marathe Marg, Prabhadevi
Mumbai—400025,
Board : +91-22-61796300; Fax: +91-22-24331390

Kolkata**Mr. Jayanta Roy**

Mobile: +91 9903394664

Email: jayanta@icraindia.com

A-10 & 11, 3rd Floor, FMC Fortuna
234/3A, A.J.C. Bose Road
Kolkata—700020
Tel +91-33-22876617/8839 22800008/22831411,
Fax +91-33-22870728

Chennai**Mr. Jayanta Chatterjee**

Mobile: +91 9845022459

Email: jayantac@icraindia.com

5th Floor, Karumuttu Centre
634 Anna Salai, Nandanam
Chennai—600035
Tel: +91-44-45964300; Fax: +91-44 24343663

Bangalore**Mr. Jayanta Chatterjee**

Mobile: +91 9845022459

Email: jayantac@icraindia.com

'The Millenia'
Tower B, Unit No. 1004, 10th Floor, Level 2 12-14, 1 & 2,
Murphy Road, Bangalore 560 008
Tel: +91-80-43326400; Fax: +91-80-43326409

Ahmedabad**Mr. L. Shivakumar**

Mobile: +91 9821086490

Email: shivakumar@icraindia.com

907 & 908 Sakar -II, Ellisbridge,
Ahmedabad- 380006
Tel: +91-79-26585049, 26585494, 26584924; Fax:
+91-79-25569231

Pune**Mr. L. Shivakumar**

Mobile: +91 9821086490

Email: shivakumar@icraindia.com

5A, 5th Floor, Symphony, S.No. 210, CTS 3202, Range
Hills Road, Shivajinagar, Pune-411 020
Tel: + 91-20-25561194-25560196; Fax: +91-20-
25561231

Hyderabad**Mr. Jayanta Chatterjee**

Mobile: +91 9845022459

Email: jayantac@icraindia.com

4th Floor, Shobhan, 6-3-927/A&B. Somajiguda, Raj
Bhavan Road, Hyderabad—500083
Tel:- +91-40-40676500