September 03, 2020

Dileep Industries Private Limited: Rating upgraded; removed from Issuer Not Cooperating Category

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Short Term - Fund-based - Packing Credit	16.00	16.00	[ICRA]A3; Rating upgraded from [ICRA]A4+ and removed from 'Issuer Not Cooperating' category
Short Term - Fund-based – FDB/FBE	14.00	14.00	[ICRA]A3; Rating upgraded from [ICRA]A4+ and removed from 'Issuer Not Cooperating' category
Total	**30.00**	**30.00**	

**Instrument details are provided in Annexure-1*

Rationale

ICRA has upgraded the rating of Dileep Industries Private Limited (DIPL) and removed it from 'Issuer Not Cooperating' category based on adequate information received from the client for carrying out detailed credit assessment.

ICRA's rating favorably factors in the extensive experience of DIPL's promoters in the handicraft/decorative/home furnishing items manufacturing industry. The rating also derives strength from the company's established relationship with the overseas customers like Target Corporation, Pier 1 Imports, etc. which had helped to secure repeat orders and also provided near-to-medium-term revenue visibility. DIPL's financial risk profile remains comfortable with healthy return indicators and debt protection metrics with adequate liquidity, given the presence of considerable cash and liquid investments.

However, the rating is constrained by the company's exposure to the overseas market, which accounts for 85–90% of its business. As DIPL's revenues come from overseas markets and are generated in foreign currency, its profitability remains vulnerable to the foreign currency fluctuation risk. However, this is mitigated to a certain extent by the presence of an active hedging policy. ICRA notes the company's modest scale of operations, given the intense competition from numerous organised and unorganised players operating in the fragmented industry. Moreover, DIPL is exposed to raw material price fluctuation risk in the absence of price variation clauses in the agreements with its customers. The rating also factors in the firm's moderate-to-high client-concentration risk and its high working capital intensity.

Key rating drivers and their description

Credit strengths

Established track record in handicrafts and home furnishing items manufacturing industry - The promoters have been manufacturing furniture and handicraft/decorative/home furnishing items and other related products for more than 15 years. The company's long presence in the industry has helped it to establish strong relationships with suppliers and customers. Hence, it gets repeat orders from its existing customers, which provides revenue visibility.

Long association with reputed international clients - 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, etc. The company exports to the US and European markets. Healthy demand from clients in the US for handicraft products has helped it in securing repeat orders from clients.

Comfortable financial risk profile and adequate liquidity position - The financial risk profile of the company remains comfortable with healthy margins and return indicators along with comfortable debt protection metrics. In FY2020, its net margins remained at 7.5% with RoCE of 16.1%, and its gearing, interest coverage and NCA/TD were 0.9 times, 3.2 times and ~26.6%, respectively. Due to sizeable cash and liquid investments of ~Rs 22.2 crore, its net debt remained low and its liquidity remained adequate.

Credit challenges

Modest scale of operations amid stiff competition - The company's scale of operations remained limited with revenues of ~Rs. 116.2 crore in FY2019 and ~Rs. 113.9 crore in FY2020, which de-grew by 14% and 2%, respectively on a YoY basis and at a CAGR of 0.19% during the five-year period between FY2015 and FY2020.

Moderate to high client concentration - The company faces moderate to high client concentration risk with its top 5 customers accounting for ~ 57% of sales in FY2020. However, the risk is mitigated by the fact that the company has been supplying goods to these customers for a long period of time and has established strong relations with its buyers.

Vulnerability to foreign exchange fluctuations; active hedging policy mitigates risk - As the company is mainly an export-oriented unit, it is exposed to forex risk in case of adverse movements in foreign currency rates. However, the risk is considerably mitigated as the company uses forward contracts to hedge its receivables. Further, given DIPL's high dependence on the export market, its earnings are susceptible to economic and market conditions in such countries.

High working capital intensity - The highly working capital-intensive operations of the company are reflected by NWC/OI of ~35% in FY2020.

Liquidity position: Adequate

The company's liquidity profile remains **adequate** on account of healthy retained cash flows and moderate utilisation of working capital limits, which averaged at ~74% for the 12-month period ending in May 2020. The liquidity is further supported by the presence of cash and liquid investments of Rs. 22.2 crore as on March 31, 2020; there are no major long-term debt repayments.

Rating sensitivities

Positive triggers - ICRA could upgrade the rating of DIPL if the latter demonstrates a healthy and sustained improvement in its scale and profitability as well as working capital intensity. A specific credit metrics that could lead to an upgrade is interest coverage higher than 4 times on a sustained basis.

Negative triggers - DIPL's rating could be downgraded if there is significant moderation in its operating income and profitability. Any further stretch in the working capital cycle or debt-funded capex could also put negative pressure on the rating.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not applicable
Consolidation / Standalone	Standalone

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.

Key financial indicators

	Audited FY2019	Provisional FY2020
Operating Income (Rs. crore)	116.2	113.9
PAT (Rs. crore)	6.8	8.5
OPBDIT/OI (%)	9.3%	8.8%
PAT/OI (%)	5.8%	7.5%
Total Outside Liabilities/Tangible Net Worth (times)	2.2	1.6
Total Debt/OPBDIT (times)	3.7	3.6
Interest Coverage (times)	4.0	3.2

Source: DIPL's Annual Report/Financial statements, ICRA research

Status of non-cooperation with previous CRA:

CRA	Status	Date of Release
Brickwork Ratings	**BWR** A4 (Stable) "Issuer Not Cooperating"	August 10, 2020

Any other information: None

Rating history for last three years

	Instrument	Current Rating (FY2021)					Rating History for the Past 3 Years			
		Type	Amount Rated (Rs crore)	Amount Outstanding (Rs crore)	Rating		FY2020	FY2019		FY2018
					3-Sept-20	29-May-20	-	28-Feb-19	16-Oct-18	3-Aug-17
1	Fund-based – Packing Credit	Short Term	16.0	-	[ICRA]A3	[ICRA]A4+ ISSUER NOT COOPERATING	-	[ICRA]A3+ ISSUER NOT COOPERATING	[ICRA]A3+ ISSUER NOT COOPERATING	[ICRA]A3+
2	Fund-based – FDB/FBE	Short Term	14.0	-	[ICRA]A3	[ICRA]A4+ ISSUER NOT COOPERATING	-	[ICRA]A3+ ISSUER NOT COOPERATING	[ICRA]A3+ ISSUER NOT COOPERATING	[ICRA]A3+

Complexity level of the 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 click here

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Fund based- Packing Credit	NA	NA	NA	16.00	[ICRA]A3
NA	Fund based- FDB/FBE	NA	NA	NA	14.00	[ICRA]A3

Source: Dileep Industries Private Limited

Annexure-2: List of entities considered for consolidated analysis: Not Applicable

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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