

Infomerics Valuation And Rating Pvt. Ltd.

Press Release

Dhunseri Ventures Limited

September 20, 2019

Ratings

Instrument / Facility	Amount (Rs. crore)	Ratings	Rating Action
Long Term Bank Facilities	60.00	IVR A+ / Stable Outlook (IVR Single A Plus with Stable Outlook)	Assigned
Short Term Bank Facilities	100.00	IVR A1+ (IVR A One Plus)	Withdrawn

Details of Facilities are in Annexure 1

Rating Action

Infomerics Valuation And Rating Private Ltd has assigned the rating of IVR A+/Stable (IVR Single A Plus with Stable outlook) to the Long Term Bank Facility of Rs.60.00 crore of DVL and withdrawn the rating of IVR A1+ (IVR A one Plus) assigned to the Short Term Bank Facility of Rs.100.00 crore (present outstanding NIL) of Dhunseri Ventures Limited (DVL) as the facility has been fully repaid and No Dues Certificate has been received from the concerned lender confirming the same.

Detailed Rationale

The aforesaid rating assigned to the long term bank facilities of Dhunseri Ventures Limited (DVL; erstwhile Dhunseri Petrochem Limited) continues to derive comfort from its strong promoters with strong liquidity position, which is however exposed to market liquidity, sound capital structure underpinned by a strong net worth base, assured royalty income along with healthy debt protection parameters. The rating however is tempered by volatility in its operation, risk associated with the investment in IVL Dhunseri Polyester Company S.A.E. (IVLDPC) and cyclical nature of the petrochemical industry. Earning adequate return on investments, maintenance of capital structure and protecting investments from adverse market movement remain the key rating sensitivities.

Further, the rating of short-term bank facilities is withdrawn in accordance with Infomerics' policy on withdrawal and as requested by the company.

Infomerics Valuation And Rating Pvt. Ltd.

List of Key Rating Drivers with detailed description

Key Rating Strengths

Strong promoters

Dhunseri group is one of the reputed industrialist groups of Kolkata, headed by Mr. C.K. Dhanuka, who is the Chairman of DVL. He is an industrialist of repute with about four decades of experience in the field of tea and about a decade old experience in Petrochemicals. Currently, Mrs. Aruna Dhanuka (Wife of Mr. C. K. Dhanuka) is the Managing director of DVL. The promoters are ably supported by a strong management team which has rich experience in both the industries.

Strong liquidity position; however exposed to market volatility

The liquidity of the company continued to remain strong, given the sizeable portfolio of its free cash and liquid investments. As on March 31, 2019, DVL had free cash and liquid investment aggregating to ~Rs.458.32 crore (investments in equity shares of Rs.324.37 crore, mutual funds of Rs.121.59 crore and cash and bank balance of Rs. 12.36 crore) (~Rs.560 crore as on March 31, 2018). However, since a sizable portion of its liquid assets are in the stock market which is exposed to stock market related volatility.

Sound capital structure underpinned by a strong net worth base

DVL's reliance on external borrowing has remained low due to its strong liquidity. DVL availed term loan in FY19 to support its acquisition of IVLDPC. However, the capital structure remained comfortable with the overall gearing ratio of 0.07x backed by its robust net worth base of Rs.875.55 crore as on March 31, 2019.

Assured royalty income

Based on an understanding between DVL and IVL Dhunseri Petrochem Industries Pvt Ltd (IVLDPL), DVL is entitled to receive a royalty income from IVLDPL for use of "ASPET" brand owned by DVL. The royalty income is to be based on the sale value of IVLDPL (excluding the business between DVL and IVLDPL). DVL is entitled to receive 0.5% of sales value of IVLDPL as royalty. In FY19, it received a royalty of Rs.25.67 crore from IVLDPL.

Infomerics Valuation And Rating Pvt. Ltd.

Healthy debt protection parameters

The debt protection parameters of the company remained healthy as reflected by its comfortable interest coverage ratio of 3.67x and Total debt to GCA at 1.76x respectively in FY19. Further, total indebtedness of the company as reflected by TOL/TNW remained comfortable at 0.08x as on March 31, 2019.

Key Rating Weaknesses

Volatility in operation

Over the years the business of DVL has witnessed structural changes several times due to various mergers and demergers. This has resultant in volatility in its revenues and profitability.

Risk associated with the investment in IVLDPC

Egypt based IVLDPC (a PET Resin manufacturer), currently a JV with Indorama Ventures Public Limited Company, Thailand, started its operation in 2014. However, due to global slowdown in the sector, the operations of the company stopped around mid-2015. However, currently in view of stable and encouraging market conditions, the operations in IVLDPC have started in August, 2018. In order to support the operations of IVLDPC, DVL has invested Rs.187 crore in the company. As per an arrangement, DVL is to receive royalty income of 0.50% on sales made by IVLDPC in addition to dividend. However, the IVLDPC is yet to become profitable, as it is at its nascent stage of operations, hence DVL is not recording royalty income as of now.

Cyclical nature of the petrochemical industry

The global petrochemical industry is historically cyclical and sensitive to changes in supply and demand that are, in turn, affected by political and economic conditions. The international petrochemical markets have witnessed spurt in prices and profit margins in alternating periods driven by limited supply, followed by expansion of production capacity, led to oversupply and reduced profitability. The profitability in the petrochemical industry is affected by the worldwide level of demand along with vigorous price competition. Further, there is a high degree of correlation between the economic growth and the growth in polymer consumption.

Infomerics Valuation And Rating Pvt. Ltd.

Analytical Approach: Standalone

Applicable Criteria

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non-financial Sector)

Policy on Withdrawal

Liquidity

DVL's liquidity profile is strong backed by its robust liquid assets aggregating to ~Rs.458 crore (Available as on March 31, 2019) as compared to its debt obligations. Moreover, its strong accruals are also expected to support its debt obligations.

About the Company

Dhunseri Ventures Ltd. (DVL, erstwhile Dhunseri Petrochem Limited) was initially incorporated as Dhunseri Tea Company Ltd in May, 1916. The Dhanuka group, based out of Kolkata, took over the management of the company in 1955. Currently, DVL is operating as an investment company. Further, it is holding 50% stake in IVL Dhunseri Petrochem Industries Pvt Ltd (IVLDPL) which is a joint venture between the Dhanuka group through DVL and Thailand-based Lohia group through Indorama Ventures Public Limited Company. Currently, the revenue profile of DVL comprise rental income, profit on sale of investment of shares & securities, interest/dividend income (revenue from treasury operations) and royalty income from IVLDPL for use of its brand "ASPET". DVL had set-up a PET resin manufacturing facility in Egypt (through its associate IVL Dhunseri Polyester Company S.A.E. (IVLDPC)) and is having 50% stake in IVLDPC with IVL having another 50% stake. The operations have again commenced from August, 2018.

The Dhunseri group is a reputed business group of Kolkata, promoted by Mr. C. K. Dhanuka who is an industrialist of repute with about four decades of experience in the field of tea and about a decade old experience in Petrochemicals.

Financials (Standalone):

(Rs. crore)		
For the year ended* / As On	31-03-2018	31-03-2019
	Audited	Audited
Total Operating Income	943.82	776.22

Infomerics Valuation And Rating Pvt. Ltd.

For the year ended* / As On	31-03-2018	31-03-2019
EBITDA	28.25	82.75
PAT	36.61	50.86
Total Debt	108.47	60.49
Tangible Net worth	832.70	875.55
EBITDA Margin (%)	2.99	10.66
PAT Margin (%)	3.81	6.38
Overall Gearing Ratio (x)	0.13	0.07

*Classification as per Infomerics' standards.

Status of non-cooperation with previous CRA: Not Available

Any other information: Nil

Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2019-20)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18	Date(s) & Rating(s) assigned in 2016-17
1.	Long Term Fund Based Limits – Term Loan	Long Term	60.00	IVR A+/Stable	-	-	-
2.	Short Term Bank Facilities	Short Term	100.00	IVR A1+ (Withdrawn)	IVR A1+	-	-

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.

Name and Contact Details of the Rating Analyst:

Name: Ms. Aakanksha N. Banthia

Tel: (033) 46022266

Email: abanthia@infomerics.com

Name: Mr. Avik Podder

Tel: (033) 46022266

Email: apodder@infomerics.com

About Infomerics:

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities

Infomerics Valuation And Rating Pvt. Ltd.

and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. Company's long experience in varied spectrum of financial services is helping it to fine tune its product offerings to best suit the market.

Disclaimer: Infomerics ratings are based on information provided by the issuer on an 'as is where is' basis. Infomerics credit ratings are an opinion on the credit risk of the issue / issuer and not a recommendation to buy, hold or sell securities. Infomerics reserves the right to change, suspend or withdraw the credit ratings at any point in time. Infomerics ratings are opinions on financial statements based on information provided by the management and information obtained from sources believed by it to be accurate and reliable. The credit quality ratings are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. We, however, do not guarantee the accuracy, adequacy or completeness of any information which we accepted and presumed to be free from misstatement, whether due to error or fraud. We are not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by us have paid a credit rating fee, based on the amount and type of bank facilities/instruments. In case of partnership/proprietary concerns/Association of Persons (AOPs), the rating assigned by Infomerics is based on the capital deployed by the partners/proprietor/ AOPs and the financial strength of the firm at present. The rating may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor/ AOPs in addition to the financial performance and other relevant factors.

Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Term Loan	-	9.70%	April-2023	60.00	IVR A+/Stable