

Infomerics Valuation And Rating Pvt. Ltd.

Press Release

Dhunseri Petrochem Limited

June 21, 2018

Ratings

Instrument / Facility	Amount (Rs. Crore)	Ratings	Rating Action
Short Term Bank Facilities	100	IVR A1+ (IVR A One Plus)	Assigned
Total	100		

Details of Facilities are in Annexure 1

Detailed Rationale

The aforesaid rating assigned to the bank facilities of Dhunseri Petrochem Limited (DPL) derives comfort from its strong promoters with strong liquidity position, 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, exposure to foreign exchange fluctuation risk, risk associated with the proposed investment in Egyptian Indian Polyester Company S.A.E (EIPET) and cyclical nature of the petrochemical industry. Profitability and gearing level remain the key rating sensitivities.

List of Key Rating Drivers

- Strong promoters
- Strong liquidity position
- Sound capital structure underpinned by a strong net worth base
- Assured royalty income
- Healthy debt protection parameters
- Volatility in operation
- Exposure to foreign exchange fluctuation risk
- Risk associated with the proposed investment in EIPET
- Cyclical nature of the petrochemical industry

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Detailed Description of Key Rating Drivers

Key Rating Strengths

Strong promoters

Dhunseri group is one of the reputed industrialist groups of Kolkata, headed by Shri C.K. Dhanuka. Shri C. K. Dhanuka, Chairman of DPL, 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, Smt. Aruna Dhanuka (Wife of Shri C. K. Dhanuka) is the Managing director of DPL. The promoters are ably supported by a strong management team which has rich experience in both the industries.

Strong liquidity position

The liquidity of the company continued to remain strong, given the sizeable portfolio of free cash and liquid investments. As on March 31, 2018, DPL had free cash and liquid investment aggregating to ~Rs.560 crore (investments in equity shares of Rs.289.02 crore, mutual funds of Rs.213.60 crore and cash and bank balance of Rs. 55.87 crore) (~Rs.504 crore as on March 31, 2017). However, since a sizable portion of its liquid assets are in stock market, it is exposed to stock market related volatility.

Sound capital structure underpinned by a strong net worth base

DPL's reliance on external borrowing has remained low due to its strong liquidity. DPL availed working capital financing in the form of EPC/PCFC during FY18 (refers to the period from April 1 to March 31) to support its working capital needs for its export activities. However, the capital structure remained comfortable with the overall gearing ratio of 0.13x as on March 31, 2018 backed by its robust net worth base of Rs.831.36 crore. However, the company has borrowed Rs.440 crore in FY19 (for investment in overseas JV with Indo Rama group - Egyptian Indian Polyester Company, S.A.E) which shall be repayable by August, 2018. As indicated by the management, this facility is backed by an SBLC from Indo Rama Ventures Public Limited (IVL). IVL, listed in Thailand is amongst the world's leading petrochemical producers. It reported consolidated revenues of USD 8.4bn in 2017.

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Assured royalty income

Based on an understanding between DPL and IVLDPL, DPL is entitled to receive a royalty income from IVLDPL for use of “ASPET” brand owned by DPL. The royalty income is to be based on the sale value of IVL Dhunseri Petrochem Industries Pvt Ltd (IVLDPL) (excluding the business between DPL and IVLDPL). DPL is entitled to receive 0.5% of sales value of IVLDPL as royalty. In FY18, it received a royalty of Rs.8.5 crore from IVLDPL.

Healthy debt protection parameters

The debt protection parameters remained healthy as reflected by comfortable interest coverage ratio of 18.36x in FY18 and Total debt to GCA at 2.93x in FY18.

Key Rating Weaknesses

Volatility in operation

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

Exposure to foreign exchange fluctuation risk

DPL is in exports. Accordingly, its profitability remains vulnerable to any unfavourable movement in foreign exchange rates. However, the company enjoys natural hedging to an extent due to availment in Pre-Shipment Credit in Foreign Currency. Moreover, in order to reduce the risk of forex fluctuations, the company also uses forward contracts. Currently, 10% appreciation in INR will affect the bottom line by Rs.1.4 crore.

Risk associated with the proposed investment in EIPET

Egypt based EIPET (a PET Resin manufacturer), currently a JV with IVL, 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 EIPET are expected to start from H2FY19. In order to support the operations of EIPET, DPL is planning to invest Rs.160 crore in the company. As per an arrangement, DPL is to receive royalty income of 0.25% on sales made by EIPET in addition to dividend. However, the success of re-starting of the operations of EIPET remains to be seen.

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Apart from this, EIPET has paid USD 87mn to its lenders towards full and final settlement of its outstanding dues during Q1FY19. To pay the settlement amount to the Lenders, DPL has supported EIPET through its internal accruals and has arranged short term bridge financing raised in India, and infused the same into EIPET which is payable by August 2018. As indicated by the management, this facility is backed by an SBLC from IVL, Thailand. Additionally, MNC banks have provided “in-principle” sanction to EIPET for lending facilities. EIPET will repay DPL from the drawal of these facilities.

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.

Analytical Approach & Applicable Criteria:

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non-financial Sector)

About the Company

Dhunseri Petrochem Ltd. (DPL) 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. DPL was initially engaged in cultivation, manufacture and sale of tea with its gardens in Assam and latter started manufacturing of polyethylene terephthalate (PET) Resins through its subsidiary. Eventually, the company demerged its tea business and PET Resins manufacturing business. Currently, DPL 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 DPL and Thailand-based Lohia group through Indorama Ventures Public Limited Company. Moreover, DPL started export of PET Resins to Europe in FY18. Currently, the revenue profile of DPL comprise export revenue from PET resins (procured from IVLDPL), rental income, profit on sale of investment of shares &

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securities, interest/dividend income (revenue from treasury operations) and royalty income from IVLDPL for use of its brand “ASPET”. However, DPL is planning to stop its export business from H2FY19. In 2014, DPL had set-up a PET resin manufacturing facility in Egypt (through its subsidiary Egyptian Indian Polyester Company S.A.E. (EIPET) with a capacity of 5,40,000 TPA (commenced commercial production in Feb. 2014 with a capacity of 2,10,000 TPA). However, due to global slowdown in the sector, the operations of the company stopped around the mid-2016. Currently, DPL is having 38.5% stake in Egyptian Indian Polyester Company, S.A.E (EIPET, incorporated in Egypt) with IVL having another 38.5% stake and the company is expected to start its operations soon.

The Dhunseri group is a reputed business group of Kolkata. The promoter, Shri C. K. Dhanuka, is an industrialist of repute with about four decades of experience in the field of tea and about a decade old experience in Petrochemicals. Dhunseri Investments Ltd is the holding company of DPL. The day-to-day operation of DPL is looked after by the executive directors along with a professional management team who is reporting to the board of directors. DPL’s Board of Directors comprises 11 directors representing promoters, executive directors and independent directors. Smt. Aruna Dhanuka (Wife of Shri C.K.Dhanuka) is the present Managing Director of the company.

Financials (Standalone):

	(Rs. Crore)	
For the year ended* / As On	31-03-2017	31-03-2018
	Audited	Provisional
Total Operating Income	26.21	941.16
EBITDA	4.75	26.27
PAT	-22.06	36.61
Total Debt	0.00	108.47
Tangible Net worth	758.31	831.36
EBITDA Margin (%)	18.14	2.79
PAT Margin (%)	-60.28	3.81
Overall Gearing Ratio (x)	0.00	0.13

*Classification as per Infomerics’ standards.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Nil

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Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2018-19)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2017-18	Date(s) & Rating(s) assigned in 2016-17	Date(s) & Rating(s) assigned in 2015-16
1.	Short Term Bank Facilities	Short Term	100	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.

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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 and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. It is gradually gaining prominence in domestic rating and/or grading space. Infomerics is striving for positioning itself as the most trusted & credible rating agency in the country and is gradually widening its product portfolio. Company's long experience in varied spectrum of financial services is helping it to fine tune its product offerings to best suit the market.

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Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Short Term Bank Facilities	-	-	-	100	IVR A1+