Dhoot Transmission Private Limited

December 25, 2018

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long term Bank Facilities	61.74 (Enhanced from 42.94)	**CARE A-;Stable (Single A Minus; Outlook: Stable)**	**Reaffirmed**
Short term Bank Facilities	26.48	**CARE A2+ (A Two Plus)**	**Reaffirmed**
Long term/ Short term Bank Facilities	105.00 (enhanced from 75.00)	**CARE A-; Stable/CARE A2+ (Single A Minus; Outlook: Stable/ A Two Plus)**	**Reaffirmed**
Total	**193.22 (Rs. One Hundred Ninety Three crore and Twenty Two lakh only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings reaffirmation of the bank facilities of Dhoot Transmission Private Limited (DTPL) continue to derive strength from significant growth in scale of operation coupled with improved profit levels in FY18 (refers to the period April 01 to March 31) & H1FY19 (refers to the period April 01 to September 30) and consistent profitability margins in FY18 though continued to remain moderate due to limited value addition. The ratings continues to factor in experienced promoters in the wiring harness segment, reputed clientele and strategically located manufacturing facilities, diversification through backward and forward integration, Satisfactory liquidity profile as on March 31, 2018 and September 30, 2018 and stable industry outlook.

The rating strengths however are tempered by concentrated customer base, marginally weekened capital structure though continued to remain satisfactory, deterioration in debt and interest coverage parameters, risk related to execution and stabilization of capex, foreign exchange fluctuation risk and debt funded acquisition of two foreign entities in FY18.

The ability of the company to reduce its client and sector concentration, and maintain its profitability and improve gearing levels and debt coverage parameter are the key rating sensitivities. Completion of the on-going capex programme without any time and cost over-run is key rating moniterable.

Detailed description of the key rating drivers

Key Rating Strengths

- ***Experienced promoters and established track record:*** Mr. Rahul Dhoot is a first generation entrepreneur and electrical engineer. The promoters are qualified in this field of engineering and have nearly two decades of experience in the manufacturing of electronic transmission products for reputed OEMs in the automobile industry and are supported by a team of qualified and well experienced second tier management, heading various departments.
- ***Strategic location of manufacturing facilities:*** DTPL has set up its plants in close proximity to the leading OEMs, so as to reduce the operational bottlenecks. DTPL has existing units at Aurangabad (4 units), Pune (2 units), Manesar (1 unit) and Chennai (1 unit). All these units are strategically located in and around the auto clusters of India, allowing the company easy access to the OEM markets and achieve operational efficiencies and better supply chain management. All these plants of DTPL have flexible manufacturing systems in place, which can ably manufacture similar products for other OEMs.
- ***Significant growth in scale of operation coupled with improved profitability levels during FY18 and H1FY19:*** DTPL has reported growth in total operating income by 35.64% to Rs. 656.11 crore in FY18 over FY17 primarily backed by increase in sales of wiring harness sets to 441.43 lakh units in FY18 compared to 269.22 lakh units in FY17. Sales from wiring harness sets are major revenue driver of DTPL contributing 86.12% to net sales in FY18 (84.91% in FY17) witnessing a y-o-y growth of 38.56%. In line with increase in sales, the profit levels of the company have also improved with growth in PBILDT by 33.63% and PAT by 54.74%. However while the PBILDT margin continued to remain constant in FY18 on account of marginally lower sales realizations on wiring and harness sets as against in FY17; PAT margin has improved by 53 bps in FY18 on account of proportionately lower capital charge during the year. Further, during H1FY19, DTPL has achieved total operating income of Rs. 376.62 crore.
- ***Backward integration coupled with focus on Research & Development (R&D) for continuous improvement in operations:*** DTPL has backward integration facility for manufacturing of various input products such as terminals, connectors, cables and moldings, which it used to outsource from the outside market. The company met around 30% of its raw materials requirement through captive production in FY18 has been aiding in cost saving leading to improvement in the margins in the long term. However, the same is expected to increase going ahead, and DTPL expects the in house production to increase the profit margins in the coming years.

[1]*Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*

Further, DTPL has set up a separate in house R&D at plant Farola- (unit –II) for its electronic products and processes and also at Shendra industrial area, Aurangabad.

- ***Satisfactory liquidity profile as on March 31, 2018 and September 30, 2018***: Liquidity profile of the company has remained satisfactory as on March 31, 2018 and as on September 30, 2018 with current assets being 1.04x and 1.19x of current liabilities respectively. Further, the company had free cash and bank balance of Rs. 2.14 crore as on March 31, 2018 (Rs. 10.91 crore as on March 31, 2017) and Rs. 1.71 crore as on September 30, 2018. In addition, the company has comfortable operating cycle period of 61 days in FY18 with collection days of 62 and inventory holding period of 57 days off set by credit period of 58 days from the supplies which helps in better management of funds for working capital requirement. Furthermore, the company has comfortable short term debt coverage ratio of 2.15x for FY18 on account of healthy cash generation from operation coupled with around 21.14% of un-utilized CC limits.
- ***Stable Industry outlook:*** The Indian auto component industry is projected to grow at a CAGR of 8.5% though 2011-21, with exports projected to grow at 18.8% [*Source: Automotive Component Manufacturing Association of India*]. In FY18, total auto sales witnessed a sharp double digit growth of about 14.5%y-o-y after increasing by over 5% in FY17. In August 2018, auto industry sales (including PVs, CVs and two & three wheelers) registered a low single-digit growth of about 6% y-o-y in overall sales vis-à-vis a 13.6% growth registered a year ago. However, in FY19, the auto industry is expected to continue witnessing healthy growth as the disruptions caused by various policy implementations (demonetization, ban on BS-III vehicles, GST, rate revisions) have almost moderated. Also, demand is expected to improve on back of various initiatives taken by the government in the Union Budget 2019 for the Agriculture and Infrastructure sectors.

Key Rating Weaknesses

- ***Volume driven business and product mix focus in low margin auto component products:*** DTPL is essentially a volume driven business, with with limited value addition, resulting in moderate profitability. However, with development of value added electronic products, the profitability is expected to improve going forward.
- ***Reputed albeit concentrated clientele profile***: DTPL has established relationship with leading OEMs in 2-wheeler, 3- wheeler and commercial vehicle segments, which fetches the company repeat and bulk orders resulting in client concentration. Though the revenue concentration from top 5 clients continues to remain 60% (FY16) to 70% (H1FY19) there is shift in client base y-o-y. While, Bajaj Auto Limited, Dhoot Transmission (UK) Ltd, Royal Enfield continue to remain top 3 players for DTPL, there was shift in client base with addition of 2 new clients namely, Honda R&D (India) Ltd and VE Commercial Vehicles Ltd. Moreover, the diversification is expected to improve further, as the company expands its product portfolio.
- ***Marginally weakened leverage position as on March 31, 2018 and as on September 30, 2018:*** Capital structure of the company continued to remain moderate with long term debt to equity below unity at 0.96x as on March 31, 2018 and 1.00x as on September 30, 2018 though weakened from 0.66x as on March 31, 2017 and overall gearing at 1.62x as on March 31, 2018 and 1.44x as on September 30, 2018 weakened from 1.27x as on March 31, 2017. Slight deterioration in the capital structure is mainly due to addition of term loans for project execution and regular wear and tear capex. Further, debt coverage parameters and interest coverage parameters have also weakened on account of increase in term debt during the year however continued to remain moderate.
- ***On-going capital expansion, project execution and stability risk:*** The company is in its growth stage and has been incurring capital expenditure in the form of new manufacturing facilities during past 4 years. During FY18 to FY19, the company is in process of setting up another two units, one in Pithampur (Indore, Madhya Pradesh) and another at Shendra SEZ (Aurangabad, Maharashtra). Total cost of the project is Rs. 37.86 crore, funded through mix of debt and internal accruals in the proportion of 65% and 35% respectively. As on September 30, 2018, DTPL has completed around 69% of the project work. Timely completion and stabilization of capex is key rating monitorable.

  Further, during the year FY18, Dhoot Transmission (UK) the wholly owned subsidiary of DTPL, acquired the entire ordinary share capital of TFC Cable Assemblies Limited on June 22, 2017 and the entire ordinary share capital of Parkinson Harness Technology Limited on March 23, 2018. Principal activity of both the companies is manufacture and sale of wiring harnesses.
- ***Risk related to foreign exchange fluctuation:*** DTPL's profitability is susceptible to volatile forex rates on account of import of raw materials, capital goods, components & spare parts as well as short term foreign currency borrowings. The company follows the policy of natural hedge mechanism and is a net importer. During the year FY18, out of total raw material consumed, 15.00% (Rs. 66.71 crore) compared to 13.00% (Rs. 42.68 crore) in FY17 is imported from nations like Europe, Singapore, Dubai and China. During the year, FY18, DTPL has earned net exchange income of Rs. 1.39 crore as against Rs. 4.56 crore in FY17.

Analytical approach: Consolidated. CARE has taken consolidated approach for the purpose of review of rating of DTPL. The consolidated financials include financials of its subsidiaries [Dhoot Transmission (UK) Limited-100% of ownership, Parkinson Harness Technology Limited-100% of ownership and TFC Cables Assemblies Limited-100% of ownership] for the year ended March 31, 2018.

Applicable Criteria

Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short Term Instruments

Financial Ratios - Non-Financial Sector
Factoring Linkages in Ratings
CARE's methodology for manufacturing companies
Rating Methodology-Auto Ancillary Companies

About the Company

Dhoot Transmission Private Limited (DTPL) was started in 1998 by Mr. Rahul Dhoot. DTPL manufactures wiring harness for automobiles focusing on two wheelers, three wheelers, commercial vehicles and other off-road vehicles (tractors, earth movers, among others). DTPL's manufacturing plants are located at Aurangabad (4 units), Pune (1 units), Chennai (1 unit) and Manesar (Haryana) (1 unit). All the units are equipped with design and development centers. The company is in the process of setting up two new units by FY19, one SEZ unit at Shendra, Aurangabad exclusively for the purpose of exports of products and another at Indore.

Brief Financials (Rs. crore)	FY17 (Audited)	FY18 (Audited)
Total operating income	483.70	656.11
PBILDT	57.57	76.93
PAT	18.05	27.93
Overall gearing (times)	1.27	1.62
Interest coverage (times)	4.14	4.39

A: Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	FY2024	48.22	CARE A-; Stable
Fund-based - LT/ ST-CC/PC/Bill Discounting	-	-	-	105.00	CARE A-; Stable / CARE A2+
Non-fund-based - ST-Letter of credit	-	-	-	5.00	CARE A2+
Fund-based - LT-Buyers Credit	-	-	-	13.52	CARE A-; Stable
Fund-based/Non-fund-based-Short Term	-	-	-	21.48	CARE A2+

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT-Term Loan	LT	48.22	CARE A-; Stable	-	1)CARE A-; Stable (05-Feb-18)	1)CARE A- (18-Nov-16)	1)CARE BBB+ (28-Oct-15)
2.	Fund-based - LT/ ST-CC/PC/Bill Discounting	LT/ST	105.00	CARE A-; Stable / CARE A2+	-	1)CARE A-; Stable / CARE A2+ (05-Feb-18)	1)CARE A- / CARE A2+ (18-Nov-16)	1)CARE BBB+ / CARE A2 (28-Oct-15)
3.	Non-fund-based - ST-Letter of credit	ST	5.00	CARE A2+	-	1)CARE A2+ (05-Feb-18)	1)CARE A2+ (18-Nov-16)	1)CARE A2 (28-Oct-15)
4.	Fund-based - LT-Buyers Credit	LT	13.52	CARE A-; Stable	-	1)CARE A-; Stable (05-Feb-18)	1)CARE A- (18-Nov-16)	-
5.	Fund-based/Non-fund-based-Short Term	ST	21.48	CARE A2+	-	1)CARE A2+ (05-Feb-18)	1)CARE A2+ (18-Nov-16)	-

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