

May 27, 2015

Facilities	Amount (Rs. Crore)	Ratings
Cash Credit	4.00	SMERA BB/Stable (Assigned)
Term Loan – I	0.32	SMERA BB/Stable (Assigned)
Term Loan – II	0.52	SMERA BB/Stable (Assigned)
Term Loan - III	1.39	SMERA BB/Stable (Assigned)
Letter of Credit	0.50	SMERA A4+ (Assigned)
Forward Contracts	0.50	SMERA A4+ (Assigned)

SMERA has assigned a long-term rating of '**SMERA BB**' (read as **SMERA double B**) and a short-term rating of '**SMERA A4+**' (read as **SMERA A four plus**) to the abovementioned bank facilities of D.F.F. Textiles (DFFT). The outlook is '**Stable**'. The ratings draw comfort from DFFT's experienced management, healthy revenue growth and strong financial profile. However, the ratings are constrained by the susceptibility of firm's profit margins to volatility in raw material prices and exposure to intense competition in the textile industry.

DFFT, established in 2005, is a Coimbatore-based firm engaged in the manufacturing of cotton yarn, grey cloth and trading of textile machinery (both first and second hand machineries). The firm is headed by Mr. Earnest Navamony Chellaraj, (B.Tech Textile Technology), managing partner who has more than three decades of experience in the textile industry.

The firm's revenues have grown at a CAGR (compounded annual growth rate) of ~11 per cent from FY2010-11 to FY2013-14 (refers to financial year, April 01 to March 31). Further, the firm has booked revenues of Rs.33.23 crore (provisional) in FY2014-15 over Rs. 28.52 crore in FY2013-14 growth of 16.49 per cent over the previous year. DFFT's strong financial profile is reflected in comfortable gearing of 0.72 times as on March 2014, healthy interest coverage ratio of 3.52 times, NCA/TD (net cash accruals to total debt) of 0.23 times in FY 2013-14. However, DFFT's operating margins have declined from 8.80 per cent in FY2010-11 to 7.60 per cent in FY2013-14. Further, the profit margins of the firm are susceptible to volatility in raw material prices (cotton and cotton waste). Also, the firm faces intense competition from other players in the textile industry.

Outlook: Stable

SMERA believes that DFFT would continue to derive benefit from an experienced management and long standing customer relationship. The outlook maybe revised to 'Positive' in case the firm registers strong revenue growth while achieving sustained improvement in profit margins and effective working capital management. But the outlook maybe revised to 'Negative' in case of decline in firm's revenues and profit margins or in case of stretched working capital cycle.

About the Firm

DFFT, established in the year 2005, is a Coimbatore-based partnership firm promoted by Mr. Earnest Navamony Chellaraj and Mrs. S. Roseline Earnest. The firm is into manufacturing of cotton yarn, fabrics (grey cloth) and trading of textile machinery.

DFFT reported PAT (profit after tax) of Rs.0.60 crore on operating income of Rs.28.52 crore for FY2013-14 as compared with PAT of Rs.0.56 crore on operating income of Rs.22.39 crore for FY2012-13. The firm reported PAT of Rs.0.72 crore on operating income of Rs.33.23 crore for FY2014-15 (provisional). DFFT's net worth stands at Rs.9.40 crore as on March 31, 2014 as compared with Rs.4.76 crore a year earlier.

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