

D.F.F. Textiles: Assigned

Facilities	Amount (Rs. Crore)	Ratings/Outlook
Cash Credit	4.50	SMERA BB/Stable (Suspension Revoked; Rating Assigned)
Term Loan I	0.39	SMERA BB/Stable (Suspension Revoked; Rating Assigned)
Term Loan II	0.64	SMERA BB/Stable (Suspension Revoked; Rating Assigned)
Term Loan III	1.96	SMERA BB/Stable (Suspension Revoked; Rating Assigned)
Letter of Credit	0.50	SMERA A4+ (Suspension Revoked; Rating Assigned)
Forward Sales Contract	0.50	SMERA A4+ (Suspension Revoked; Rating Assigned)
Bank Guarantee	0.23	SMERA A4+ (Suspension Revoked; Rating Assigned)

SMERA has revoked the suspension of ratings on the above mentioned bank facilities of D.F.F Textiles (DFFT) and assigned long term rating of **'SMERA BB' (read as SMERA double B)** and short term rating of **'SMERA A4+' (read as SMERA A four plus)**. The outlook is **'Stable'**.

The ratings derive comfort from the firm's established track record of operations, experienced management and moderate financial risk profile. However, the ratings are constrained by the small scale of operations, working capital intensive business and susceptibility of profitability to volatility in raw material prices of cotton.

DFFT, established in 2005, is a Coimbatore-based partnership firm engaged in the manufacture of cotton yarn and grey cloth. The firm also trades in textile machinery. Mr. Earnest Navamony, the Managing Partner, possesses more than two decades of experience in the industry. The financial risk profile of DFFT is moderate marked by net worth of Rs.10.50 crore and gearing (debt-equity ratio) of 0.73 times as on March 31, 2016. The interest coverage ratio (ICR) stood at 3.05 times for FY2016.

DFFT's operating income declined to Rs.27.86 crore in FY2015-16 from Rs.33.23 crore in FY2014-15 on account of decline in sale of machinery and yarn. The firm achieved revenue of ~Rs.24.00 crore from April 2016 to November 2016.

The operations of DFFT are working capital intensive as reflected in the gross current asset days of 106 on account of high inventory days of 91 in FY2015-16. The average cash credit utilisation for six months ended November 2016 stands at ~94 per cent. The operating margins declined marginally to 8.39 per cent in FY2015-16 from 8.48 per cent in FY2014-15 and are susceptible to fluctuations in raw material prices.

Rating Sensitivity Factors

- Scaling up operations while improving profit margins
- Movement in gearing and coverage indicators
- Efficient working capital management

Outlook - Stable

SMERA believes that the outlook on DFFT will remain stable over the medium term on account of the firm's experienced management. The outlook may be revised to 'Positive' if the firm registers significant growth in revenue while improving profit margins along with its financial risk profile. Conversely, the outlook may be revised to 'Negative' in case of steep decline in the operating profit margins or significant deterioration in the financial risk profile on account of larger than envisaged debt funded capex and working capital borrowings.

Criteria applied to arrive at the ratings:

- Manufacturing Entities

About the Firm

DFFT, established in 2005, is a Coimbatore (Tamil Nadu) based partnership firm promoted by Mr. Earnest Navamony Chellaraj and Mrs. S. Roseline Earnest. The firm is engaged in the manufacture of cotton yarn, fabrics and trades in textile machinery.

In FY2015-16, the firm reported net profit of Rs.0.46 crore on operating income of Rs.27.86 crore against net profit of Rs.0.90 crore on operating income of Rs.33.23 crore in the previous year.

Rating History

Date	Facilities	Amount (Rs. Crore)	Ratings		Rating Outlook
			Long Term	Short Term	
13 Aug, 2015	Cash Credit	4.00	SMERA BB (Suspended)	-	Stable
	Term Loan I	0.32	SMERA BB (Suspended)	-	Stable
	Term Loan II	0.52	SMERA BB (Suspended)	-	Stable
	Term Loan III	1.39	SMERA BB (Suspended)	-	Stable
	Letter of Credit	0.50	-	SMERA A4+ (Suspended)	-
	Forward Contract	0.50	-	SMERA A4+ (Suspended)	-
27 May, 2015	Cash Credit	4.00	SMERA BB (Assigned)	-	Stable
	Term Loan I	0.32	SMERA BB (Assigned)	-	Stable
	Term Loan II	0.52	SMERA BB (Assigned)	-	Stable
	Term Loan III	1.39	SMERA BB (Assigned)	-	Stable
	Letter of Credit	0.50	-	SMERA A4+ (Assigned)	-
	Forward Contract	0.50	-	SMERA A4+ (Assigned)	-

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ABOUT SMERA

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