

Press Release

DHIVAKAR SPINNING MILLS PRIVATE LIMITED

20 November, 2017

Rating Reaffirmed



Total Bank Facilities Rated*	Rs. 8.50 Cr.
Long Term Rating	SMERA B+ / Outlook: Stable
Short Term Rating	SMERA A4

* Refer Annexure for details

Rating Rationale

SMERA has reaffirmed the long-term rating of '**SMERA B+**' (read as **SMERA B plus**) and short term rating of '**SMERA A4**' (read as **SMERA A four**) on the Rs. 8.50 crore bank facilities of DHIVAKAR SPINNING MILLS PRIVATE LIMITED (DSMPL). The outlook is '**Stable**'.

DSMPL is a Tamil Nadu-based company, incorporated in 1993 by Mr. K. Thangamani. The company manufactures cotton blended yarn of count ranging from 30s to 40s. The installed capacity stands at 12192 spindles of which the current utilisation is around 92 per cent.

Key Rating Drivers

Strengths

- **Experienced management**

The Directors, Mr. K. Thangamani and Mr. T. Dhivakar have more than two decades of experience in the Textile industry.

- **Improved profitability**

DSMPL has moderate profitability. The operating (EBIDTA) margins improved to 8.41 per cent in FY2017 (Provisional) as against 6.33 per cent in FY2016. The net profit margin improved to 1.24 per cent in FY2017 (Provisional) as against net loss of Rs. 0.04 crore in FY2016. The company was able to take advantage of fluctuation in cotton prices resulting in improvement in the operating margins.

Weaknesses

- **Small scale of operations in an intensely competitive textile industry**

DSMPL has small scale of operations with operating income of Rs. 23.56 crore for FY2017 (Provisional) as against Rs. 28.18 crore in FY2016. The revenue fell owing to the company's focus on blended yarn over cotton yarn.

- **Working capital intensive operations**

The operations are working capital intensive with gross current assets (GCA) of 203 days in FY2017 (Provisional) as against 144 days in FY2016. This is mainly on account of high inventory of 136 days (PY:80 days) and high debtors of 68 days (PY: 60 days) in FY2017. Further, the cash credit limit has been fully utilised for the last six months ended 31 September, 2017.

- **Average financial risk profile**

DSMPL's financial risk profile stood below average marked by low networth of Rs. 3.69 crore as on 31 March, 2017 (Provisional) as against Rs. 3.40 crore in the previous year. The gearing (debt to equity ratio) deteriorated to 2.57 times as on 31 March, 2017 (Provisional) from 2.43 times in as on 31 March 2016. This is mainly due to increase in working capital limits from Rs. 5.67 crore as on 31 March 2016 to Rs. 7.31 crore as on 31 March 2017. The total debt of Rs. 9.51 crore includes working capital borrowings of Rs. 7.31 crore.

and term loan of Rs. 2.20 crore as on 31 March, 2017 (Provisional). The interest coverage ratio (ICR) improved to 1.89 times in FY2017 (Provisional) compared to 1.64 times in FY2016. In FY2017, the net cash accruals to total debt (NCA/TD) stood at 0.10 times as against 0.09 times in FY2016.

• Susceptibility of profitability to volatility in raw material prices

The margins are highly susceptible to changes in the prices of cotton. The price of cotton is fixed by the government through the Minimum Support Price (MSP). However, the purchase price depends on the prevailing demand -supply situation which restricts bargaining power with suppliers as well. Any adverse movement of cotton prices further impacts profitability.

Analytical Approach

SMERA has considered the standalone business and financial risk profiles of DSPL to arrive at the rating.

Outlook: Stable

SMERA believes that DSMPL's outlook will remain stable over the medium term on account of its promoters' extensive experience in the textile industry. The outlook may be revised to 'Positive' in case of significant improvement in revenues, profitability, and the financial risk profile. Conversely, the outlook may be revised to 'Negative' in case of steep decline in revenues and profitability resulting in further deterioration of financial risk profile or liquidity position.

About the Rated Entity - Key Financials

The company reported Profit after Tax (PAT) of Rs. 0.29 crore on operating income of Rs. 23.56 crore in FY2016-17 (Provisional) compared to net loss of Rs. 0.04 crore on operating income of Rs. 28.18 crore in the previous year. The net worth stood at Rs. 3.69 crore as on 31 March, 2017 (Provisional) as against Rs. 3.40 crore in the previous year.

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.smera.in/criteria-default.htm>
- Manufacturing Entities - <https://www.smera.in/criteria-manufacturing.htm>
- Financial Ratios And Adjustments - <https://www.smera.in/criteria-fin-ratios.htm>

Note on complexity levels of the rated instrument

<https://www.smera.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
09-Aug, 2016	Cash Credit	Long Term	INR 5.75	SMERA B+ / Stable
	Term Loan	Long Term	INR 0.13	SMERA B+ / Stable
	Working Capital Demand Loan	Long Term	INR 1	SMERA B+ / Stable
	Bank Guarantee	Short Term	INR 0.32	SMERA A4
	Proposed Working Capital Demand Loan	Long Term	INR 1.3	SMERA B+ / Stable

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	5.75	SMERA B+ / Stable
Term loans	Not Applicable	Not Applicable	Not Applicable	0.31	SMERA B+ / Stable
Working capital demand loan (WC DL)	Not Applicable	Not Applicable	Not Applicable	1.00	SMERA B+ / Stable
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	0.44	SMERA A4
Proposed	Not Applicable	Not Applicable	Not Applicable	1.00	SMERA B+ / Stable

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ABOUT SMERA

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