

## Press Release

### DHIVAKAR SPINNING MILLS PRIVATE LIMITED

May 30, 2019

## Rating Reaffirmed



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

\* Refer Annexure for details

## Rating Rationale

Acuite has reaffirmed long-term rating of '**ACUITE B+**' (read as **ACUITE B plus**) to the Rs. 7.63 crore, assigned '**ACUITE B+**' (read as **ACUITE B plus**) to Rs. 0.87 crore and withdrawn short term rating of '**ACUITE A4**' (read as **ACUITE A four**) on 0.32 crore bank facilities of Dhivakar Spinning Mills Private Limited (DSMPL).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 utilization is around 92 per cent.

## Analytical Approach

Acuite has considered the standalone business and financial risk profiles of the DSMPL.

## Key Rating Drivers

### Strengths

#### Established track record and experienced promoters:

DSMPL has an established track record of operation since 1993. The main promoter of the company Mr. K Thangamani has over four decades of experience in the textile industry.

#### Improved Working capital operations

The working capital cycle for DSMPL improved in FY2018 marked by Gross Current Asset (GCA) of 113 days in FY2018 compared to 204 days in FY2017. The GCA days are mainly dominated by high debtor days of 63 days in FY2018 compared to 136 days in FY2017. Acuite believes that the efficient working capital management will be crucial to the firm in order to maintain a stable credit profile.

### Weaknesses

#### Average financial risk profile

DSMPL has weak financial risk profile marked by tangible net worth of Rs. 3.61 crore as on 31 March, 2018 as against Rs. 3.41 crore as on 31 March, 2017. The gearing stood at 2.58 times as on 31 March, 2018 as against 2.82 times as on 31 March, 2017. The debt of Rs. 9.33 crore mainly consists of term loans of Rs. 2.27 crore, unsecured loans from promoters Rs. 0.35 crore and working capital borrowings of Rs. 6.71 crore as on 31 March 2018. Interest Coverage Ratio (ICR) stood at 1.76 times for FY 2018 as against 1.89 times in FY2017. Debt Service Coverage Ratio (DSCR) stood at 1.35 times for FY 2018 as against 1.43 times in FY2017. Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood high at 3.20 times as on 31 March, 2018 as against 3.86 times as on 31 March, 2017. Net Cash Accruals/Total Debt (NCA/TD) stood at 0.10 times as on 31 March, 2018. Going forward, Acuite expects the financial risk profile to improve marginally in absence of major debt funded capex plans.

#### Intense competition in the textile industry

The company is exposed to intense competition in the highly fragmented textile industry. The company also faces stiff competition from organised and unorganised players in the domestic market and also from other nations that offer lower production costs, ease of-doing business and cheap labour.

### Liquidity Position

DSMPL has modest liquidity position marked by low net cash accruals (NCA) and debt maturities in FY2018. The NCA stood at Rs. 0.72 crore as against Rs. 0.47 of debt obligations in FY2018. The net cash accruals to total borrowings (NCA/TD) stood low at 0.10 as on March 31, 2018. The group maintains unencumbered cash and bank balances of Rs. 0.42 crore as on 31 March 2018. The current ratio of the company stood at 1.24 times as

on March 31, 2018 and 1.17 times as on 31 March 2017. The operations of the group are working capital intensive in nature marked by Gross Current Assets (GCA) of 112 days in FY2018 as against 204 days in FY2017. Acuite, believes that the liquidity of the group is likely to remain modest over the near to medium term.

#### Outlook: Stable

Acuite believes DSMPL will maintain a stable business risk profile over the medium term. The company will continue to benefit from its experienced management. The outlook may be revised to 'Positive' in case the company registers healthy growth in revenues while achieving sustained improvement in operating margins, capital structure and working capital management. Conversely, the outlook may be revised to 'Negative' in case of decline in the company's revenues or profit margins, or in case of deterioration in the company's financial risk profile and liquidity position.

#### About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	29.37	23.56	28.18
EBITDA	Rs. Cr.	1.72	1.98	1.78
PAT	Rs. Cr.	0.20	0.29	(0.04)
EBITDA Margin	(%)	5.84	8.41	6.33
PAT Margin	(%)	0.68	1.24	(0.16)
ROCE	(%)	12.88	10.94	8.71
Total Debt/Tangible Net Worth	Times	2.59	2.57	2.43
PBDIT/Interest	Times	1.76	1.89	1.64
Total Debt/PBDIT	Times	3.97	4.68	4.54
Gross Current Assets (Days)	Days	112	204	144

#### Status of non-cooperation with previous CRA (if applicable)

None

#### Any other information

None

#### Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>

#### Note on complexity levels of the rated instrument

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

#### Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
11-Jan-2019	Cash Credit	LT	5.75	ACUITE B+/Stable (Indicative)
	Term Loan	LT	0.13	ACUITE B+/Stable (Indicative)
	Working Capital Demand Loan	LT	1.00	ACUITE B+/Stable (Indicative)
	Bank Guarantee	ST	0.32	ACUITE A4 (Indicative)
	Proposed Bank Facility	LT	1.30	ACUITE B+/Stable (Indicative)
20-Nov-2017	Cash Credit	LT	5.75	ACUITE B+/Stable (Reaffirmed)
	Term Loan	LT	0.31	ACUITE B+/Stable (Reaffirmed)

	Working Capital Demand Loan	LT	1.00	ACUITE B+/Stable (Reaffirmed)
	Bank Guarantee	ST	0.44	ACUITE A4 (Reaffirmed)
	Proposed Bank Facility	LT	1.00	ACUITE B+/Stable (Reaffirmed)
09-Aug-2016	Cash Credit	LT	5.75	ACUITE B+/Stable (Assigned)
	Term Loan	LT	0.13	ACUITE B+/Stable (Assigned)
	Working Capital Demand Loan	LT	1.00	ACUITE B+/Stable (Assigned)
	Bank Guarantee	ST	0.32	ACUITE A4 (Assigned)
	Proposed Bank Facility	LT	1.30	ACUITE B+/Stable (Assigned)

**\*Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	5.75	ACUITE B+/Stable (Reaffirmed)
Term Loan	Not Applicable	Not Applicable	Not Applicable	0.09	ACUITE B+/Stable (Reaffirmed)
Working Capital Demand Loan	Not Applicable	Not Applicable	Not Applicable	0.50	ACUITE B+/Stable (Reaffirmed)
Term Loan	Not Applicable	Not Applicable	Not Applicable	0.68	ACUITE B+/Stable (Assigned)
Term Loan	Not Applicable	Not Applicable	Not Applicable	0.19	ACUITE B+/Stable (Assigned)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	1.29	ACUITE B+/Stable (Reaffirmed)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	0.32	ACUITE A4 (Withdrawn)

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