

Press Release

Dhivakar Spinning Mills Private Limited

August 25, 2020



Rating Reaffirmed

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

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed the long term rating of '**ACUITE B+**' (read as **ACUITE B plus**) on the Rs.8.50 crore bank facilities of Dhivakar Spinning Mills Private Limited (DSMPL). The outlook is '**Stable**'.

Incorporated in the year 1993, DSMPL is engaged primarily in the manufacturing of cotton yarn and grey fabric. The company is based in Coimbatore, Tamil Nadu. DSMPL currently has 12,192 spindles of counts 30s-60s. The directors of the company - Mr. K.Thangamani and Mr.T.Dhivakar have more than two decades of experience in the textile industry.

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of DSMPL to arrive at this rating.

Key Rating Drivers

Strengths

- Experienced management and established track record of operations**

DSMPL is engaged primarily in the manufacturing of cotton yarn and grey fabric for more than two decades. The company is promoted by Mr. K. Thangamani and Mr. T. Dhivakar, who have more than two decades of experience in the textile industry. The top management is ably supported by a well-qualified and experienced team of the second line of management. The promoter's experience in the textile industry has helped the company build a healthy relationship with its suppliers and customers, to ensure a steady raw material supply and large off-take.

Acuité believes that DSMPL will continue to benefit from the promoter's established presence in the textile industry over the medium term.

Weaknesses

- Average Financial Risk profile**

The company has an average financial risk profile marked by moderate net worth, high gearing and moderate debt protection indicators. The net worth of the company is modest at Rs.4.70 crore as on March 31, 2020 (provisional) from Rs.3.70 crore as on 31 March 2019. The gearing (Debt/ Equity) improved nonetheless remained high at 2.83 as on March 31, 2020 (provisional) from 3.24 times as on 31 March 2019. The total debt as on March 31, 2020 (provisional) mainly consists of long term debt of Rs.3.22 crore, unsecured loans of Rs.2.03 crore and short term debt of Rs.8.06 crore. Interest coverage ratio stood moderate at 1.75 times and Debt Service Coverage Ratio (DSCR) stood low at 0.96 times for FY2020 (provisional). The Debt to EBITDA stood high at 6.02 times for FY2020 (provisional).

Acuité believes that the financial risk profile of the company is expected to remain average in the absence of debt-funded capex plan.

- Susceptible to changes in input prices**

Operating margins are susceptible to changes in cotton and yarn prices which are highly volatile and commoditized product. Cotton being a seasonal crop, the production of the same is highly dependent upon the monsoon. Thus, inadequate rainfall affects the availability of cotton in adverse weather conditions. Furthermore, any abrupt change in cotton prices due to supply-demand scenario and government regulations of changes in Minimum Support Price (MSP) can lead to distortion of prices and affect the profitability of players across the cotton value chain.

- **Intense competition and highly fragmented 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: Stretched

Liquidity profile of the company is stretched marked by full utilization of working capital limits for the last six months ending July 2020. DSMPL generated cash accruals of Rs.0.95 crore for FY2020 (provisional) with a current portion of long term debt of Rs.1.20 crore for FY2020 (provisional) and GCA days of 185 for FY2020 (provisional). The company maintains unencumbered cash and bank balances of Rs.0.19 crore as on March 31, 2020 (provisional). The current ratio stood at 1.34 times as on March 31, 2020 (provisional). Acuité believes that the liquidity of the company is likely to remain at similar levels over the medium term on account of modest accruals.

Rating Sensitivities

- Lower-than-expected revenues and profitability impacting financial risk profile
- Stretch in a working capital cycle or significant debt-funded capital expenditure leading to deterioration in liquidity

Material Covenants

None

Outlook: Stable

Acuité believes DSMPL will maintain a stable business risk profile over the medium term. The company will continue to benefit from its experienced management and long-standing relations with customers and suppliers. The outlook may be revised to 'Positive' in case the company registers higher-than-expected revenues and profitability, maintaining its financial risk profile. Conversely, the outlook may be revised to 'Negative' in case of a steep decline in the company's revenue or profitability or significant deterioration in the capital structure and liquidity position.

About the Rated Entity - Key Financials

	Unit	FY20 (Provisional)	FY19 (Actual)
Operating Income	Rs. Cr.	31.51	38.83
PAT	Rs. Cr.	0.24	0.15
PAT Margin	(%)	0.75	0.38
Total Debt/Tangible Net Worth	Times	2.83	3.24
PBDIT/Interest	Times	1.75	1.70

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

None

Any other information

None

Applicable Criteria

- Manufacturing Entities: <https://www.acuite.in/view-rating-criteria-59.htm>
- Application of Financial Ratios and Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>
- Default Recognition: <https://www.acuite.in/view-rating-criteria-52.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Upto last three years)

Not Applicable

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
30-May-2019	Cash Credit	Long Term	5.75	ACUITE B+/Stable (Reaffirmed)
	Term Loan	Long Term	0.09	ACUITE B+/Stable (Reaffirmed)
	Working capital demand loan	Long Term	0.50	ACUITE B+/Stable (Reaffirmed)
	Term Loan	Long Term	0.68	ACUITE B+/Stable (Assigned)
	Term Loan	Long Term	0.19	ACUITE B+/Stable (Assigned)
	Proposed Bank Facility	Long Term	1.29	ACUITE B+/Stable (Reaffirmed)
	Bank Guarantee	Short Term	0.32	ACUITE A4 (Withdrawn)
11-Jan-2019	Cash Credit	Long Term	5.75	ACUITE B+ (Indicative)
	Term Loan	Long Term	0.13	ACUITE B+ (Indicative)
	Working Capital Demand Loan	Long Term	1.00	ACUITE B+ (Indicative)
	Bank Guarantee	Short Term	0.32	ACUITE A4 (Indicative)
	Proposed Bank Facility	Long Term	1.30	ACUITE B+ (Indicative)
20-Nov-2017	Cash Credit	Long Term	5.75	ACUITE B+/Stable (Reaffirmed)
	Term Loan	Long Term	0.31	ACUITE B+/Stable (Reaffirmed)
	Working Capital Demand Loan	Long Term	1.00	ACUITE B+/Stable (Reaffirmed)
	Bank Guarantee	Short Term	0.44	ACUITE A4 (Reaffirmed)
	Proposed Bank Facility	Long Term	1.00	ACUITE B+/Stable (Reaffirmed)

***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	7.75	ACUITE B+/Stable (Reaffirmed)
Term Loan	June-2016	Not Applicable	June-2021	0.08	ACUITE B+/Stable (Reaffirmed)
Working Capital Demand Loan	Not Applicable	Not Applicable	Not Applicable	0.50	ACUITE B+/Stable (Reaffirmed)
Term Loan	July-2018	Not Applicable	July-2021	0.11	ACUITE B+/Stable (Reaffirmed)
Term Loan	July-2018	Not Applicable	Jan-2021	0.06	ACUITE B+/Stable (Reaffirmed)

Contacts

Analytical	Rating Desk
Aditya Gupta Vice President – Corporate & Infrastructure Sector Tel: 022-49294041 aditya.gupta@acuite.in	Varsha Bist Senior Manager - Rating Desk Tel: 022-49294011 rating.desk@acuite.in
Sruthi Talanki Rating Analyst - Rating Operations Tel: 040-40042327 sruthi.talanki@acuite.in	

About Acuité Ratings & Research:

Acuité Ratings & Research Limited is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 6,000 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Mumbai.

Disclaimer: An Acuité rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. Acuité ratings are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, Acuité, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. Acuité is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind arising from the use of its ratings. Acuité ratings are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website (www.acuite.in) for the latest information on any instrument rated by Acuité.