

Press Release
Divya Spinning Mills Private Limited

June 29, 2018



Rating Assigned

Total Bank Facilities Rated*	Rs. 45.00 Cr.
Long Term Rating	ACUITE BB / Outlook: Stable
Short Term Rating	ACUITE A4+

* Refer Annexure for details

Rating Rationale

Acuité has assigned long-term rating of '**ACUITE BB**' (**read as ACUITE double B**) and short-term rating of '**ACUITE A4+**' (**read as ACUITE A4 plus**) on the Rs.45.00 crore bank facilities of Divya Spinning Mills Private Limited (DSPL). The outlook is '**Stable**'.

Incorporated in 1999 by Mr. S. Subramani, Divya Spinning Mills Private Limited (DSPL) manufactures cotton yarn and hosiery cloth. The company manufactures cotton yarn to the counts ranging from 20s to 40s and has ~36,000 spindles. The company also manufactures clothes from 12 inch dia to 36 inch dia (interlock and single jersey) and has 120 knitting machines. The company's facilities are in Tirupur (Tamil Nadu). It has 5.8 mega-watt (MW) captive wind mill unit located in and around Tirupur.

About the Group:

Flower Knitting Mills was set up in 1988 by Mr. S. Subramani. The entity manufactures and exports nightwear, T-shirts, shorts, and undergarments for men, women, and kids. The company exports its products to regions such as the EU and the UAE. The entity's manufacturing unit is located in Tirupur (Tamil Nadu) with installed capacity to manufacture four lakh pieces per month. The unit is equipped with 350 sewing machines.

There are few other smaller entities being managed by the promoter group – Divya Hosieries, Flower Garments who are into the textile value chain. Besides the flagship entities of DSPL and Flower Knitting Mills, collectively referred to as Flower Group.

Analytical approach:

Acuité has consolidated business and financial risk profiles of Divya Spinning Mills Private Limited and Flower Knitting Mills (hereinafter referred to as the Flower group). This is because both the entities have a common management, similar line of business and have significant financial and operational linkages.

Key Rating Drivers

Strengths

• **Experienced management and integrated group operations**

Flower group is promoted by Mr. S. Subramani and Mr. S Senthil Kumar. Mr. S. Subramani is founder of the group and has experience of around four decades in the textile industry. Mr. S Senthil Kumar is the second generation entrepreneur and has around a decade of experience in the textile business. The group has presence in entire textile value chain through manufacture of cotton yarn, hosiery cloth, undergarments and readymade garments. The group has reported revenues of about Rs.174.66 crore on provisional basis for FY2018; slow-down in export of readymade garments business, lower demand for hosiery cloth on the back of reduction in duty drawback, domestic issues of demonetization and GST, cumulatively lead to gradual decline in revenues from Rs.213.0 crore in FY2015 to about Rs.174.6 crore in FY2018 (Provisional). The group's readymade garments are majorly sold to clients in Germany, Netherlands, and Belgium among other European countries. In the domestic market, it has reputed clientele of Dollar Industries Limited, Dixcy Textiles Private Limited, Globus Clothing company among others. Acuité believes that the management's

longstanding operational track record, integrated nature of operations across the value chain and sales operations across the globe are expected to support in improving its business risk profile over the medium term.

- **Moderate financial risk profile**

Moderate financial risk profile is marked by healthy net worth, moderate gearing (debt-to-equity) and average debt protection metrics. The net worth on provisional basis for FY2018 is at Rs.52.0 crore against Rs.50.6 crore in FY2017, marginal increase is attributed to profit of about Rs.1.50 crore. The group's gearing is about 1.6 times as on March 31, 2018 and its total outside liabilities to total net worth (TOL/TNW) is about 2.1 times. The capital structure is expected to be at similar levels over the medium term, as the group is not planning for any significant debt-funded capital expenditure plans. The group's debt protection metrics are average as the Interest Coverage Ratio (ICR) and Net Cash Accruals to Total Debt (NCA/TD) are moderate at 1.74 times and 0.09 times respectively for FY2018. Acuité believes that the financial risk profile is expected to improve marginally as the group is not planning for any incremental debt facilities over the near to medium term.

Weaknesses

- **Intense working capital operations**

The group has intense working capital operations as evident from Gross Current Asset (GCA) days of 252 as on March 31, 2018 (Provisional) as against 197 days as on March 31, 2015. The group's inventory position has deteriorated from about 77 days of cost of sales in FY2015 to about 147 days in FY2018; this is also evident in terms of year-end inventory vis-à-vis operating income moved from 19.2 percent in FY2015 to about 36.8 percent in FY2018. Receivables days remained at about 110 days in line with the past trend, wherein the management is able to manage with its clientele across the markets. Though the group's annual cash accruals are in the range of Rs.6.00 crore to Rs.8.50 crore, however major portion has been used for repayment of term loans of about Rs.4.00 crore per annum over the past four years. The declining cash accruals and increasing GCA lead to full utilisation of its bank lines over the past four months through May 2018. Acuité believes that the working capital operations of the group will remain intense as evident from high debtor and inventory levels and limited cash accruals post repayment of term loans.

- **Susceptible to changes in input prices and foreign exchange rate**

The profitability is susceptible to changes in the prices of the raw material fabric which is dependent on cotton. The prices of cotton are highly dependent on agro-climatic conditions. The profitability of the group is also susceptible to the changes in the forex rate. The volatility in INR-USD was about 3.8 percent in FY2017 (with highs of Rs.65.76/USD and lows of Rs.63.34/USD) and volatility in INR-EURO was about 9.6 percent in FY2017 (with highs of Rs.76.41/EURO and lows of Rs.69.71/EURO). However, over the past four months through April 26, 2018, rupee depreciated a lot at about 5.5 percent, which exposed the players to volatile profitability margins. Acuité believes that though Flower group's operations are integrated and covers part of its exposure by taking plain forward cover, still the profitability is susceptible to the forex risk and fluctuations in the input costs.

Outlook: Stable

Acuité believes that the outlook on the group will remain 'Stable' over the medium term on account of the experience of the management and relationship with established customers. The outlook may be revised to 'Positive' in case of significant improvement in the working capital management while improving revenues and sustaining the profitability. Conversely, the outlook may be revised to 'Negative' in case of further deterioration in working capital management leading to stretch in liquidity.

About the Rated Entity - Key Financials

	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	183.98	194.54	213.08
EBITDA	Rs. Cr.	16.12	16.40	19.37
PAT	Rs. Cr.	2.83	3.65	3.43
EBITDA Margin (%)	(%)	8.76	8.43	9.09
PAT Margin (%)	(%)	1.54	1.88	1.61
ROCE (%)	(%)	8.54	9.20	22.66
Total Debt/Tangible Net Worth	Times	1.78	1.51	1.65
PBDIT/Interest	Times	1.88	2.12	1.78
Total Debt/PBDIT	Times	5.51	4.36	3.91
Gross Current Assets (Days)	Days	243	217	197

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)

Not Applicable

*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	30.00	ACUITE BB / Stable (Assigned)
Stand By Line of Credit	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE A4+ (Assigned)
Term loans	Not Applicable	Not Applicable	Not Applicable	6.75	ACUITE BB / Stable (Assigned)
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	4.00	ACUITE A4+ (Assigned)
Letter of credit	Not Applicable	Not Applicable	Not Applicable	2.25	ACUITE A4+ (Assigned)

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About Acuité Ratings & Research:

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