

Press Release

Devika Fibres Private Limited

D-U-N-S® Number: 67-619-3165

May 22, 2019



Rating Assigned

Total Bank Facilities Rated*	Rs. 41.00 Cr.
Long Term Rating	ACUITE BBB- / Outlook: Stable
Short Term Rating	ACUITE A3

* Refer Annexure for details

Rating Rationale

Acuite has assigned long-term rating of '**ACUITE BBB-**' (read as **ACUITE triple B minus**) and short term rating of '**ACUITE A3**' (read as **ACUITE A three**) to the Rs. 41.00 crore bank facilities of Devika Fibres Private Limited (DFPL). The outlook is '**Stable**'.

DFPL, based at Surat, was established in 1992. The company is engaged in texturing of Polyester Filament Yarn (PFY). The company majorly caters to the local weaving units in domestic market and also has presence in export market. The company is promoted by Sultania family and has manufacturing facility located at Kudsad village (Gujarat); while the marketing activities are carried out from Surat. The company has installed capacity of 24,000 MTPA (Polyester Filament Yarn Texturing) and 3600 MTPA (Filament Yarn Sizing).

Analytical Approach

Acuite has considered standalone approach on Devika Fibres Private Limited (DFPL) for arriving at the rating.

Key Rating Drivers

Strengths

- **Experienced management and established presence in Polyester Yarn Industry**

The company has established presence of more than two decades in Polyester Yarn Industry in India and has established market for their products. DFPL is promoted and managed by Mr. Gopal Sultania and Mr. Ashok Sultania. The promoters possess more than two decades of experience in the said line of business. The company is well supported by second line of management and their rich experience has helped them to establish longstanding relationship with its customers and suppliers.

- **Improving revenue and margins**

The operating income of the company improved to Rs. 181.55 crore in FY2018 as compared to Rs.162.23 crore in FY2017. The operating income has further improved to Rs.197.77 crore for FY2019 (Provisional). The operating margins of the company have also improved to 5.09 percent in FY2018 as compared to 4.84 percent in FY2017. The same has improved to 5.24 percent in FY2019 (Provisional). Acuite expects the revenue to grow at moderate level over near to medium term.

- **Moderate financial risk profile**

The financial risk profile of the company stood moderate marked by net worth of Rs. 47.19 crore as on 31 March, 2018 as compared to Rs. 43.31 crore as on 31 March, 2017. The net worth stood at Rs. 52.66 crore as on 31 March, 2019 (Provisional) due to retaining of profits in the business. The gearing ratio (debt-equity) stood comfortable at 0.75 times as on 31 March, 2019 (Provisional) and 0.76 times as on 31 March, 2018. The interest coverage ratio stood at 3.43 times as on 31 March, 2019 (Provisional) as compared to 3.22 times as on 31 March, 2018. The TOL/TNW stood comfortable at 0.98 times as on 31 March, 2019 (Provisional) as compared to 1.02 times as on 31 March, 2018. The debt service coverage ratio (DSCR) stood at 2.33 times in FY2019 (Provisional) and 2.31 times in FY2018.

Weaknesses

• Moderately working capital intensive nature of operations

The operations of the company are moderately working capital intensive in nature marked by gross current assets (GCA) of 141 days in FY2019 (Provisional) and 138 days in FY2018. The moderate GCA is marked by increase in inventory holding levels at 50 days in for FY2019 (Provisional) as compared to 44 days in FY2018. The working capital bank limit utilisation stood at 87.95 percent for last six months ending 31 March, 2019.

• Intense competition and susceptibility of margins to raw material prices

DFPL operates in textile industry which is marked by presence of large number of players which limits bargaining power with customers. The sector has limited entry barriers. The prices of polyester and cotton yarn are highly volatile in nature and dependent on crude oil prices. Any adverse change in prices will have direct impact on the margins of the company. However, the volatility risk is mitigated to certain extent as the company is able to pass on the price impact on its customers.

Liquidity Position:

DFPL has adequate liquidity marked by moderate net cash accruals to its maturing debt obligations. The company generated cash accruals of Rs. 6.22 crore for FY2019 (Provisional) against its repayment obligations of Rs.0.91 crore. The operations of the company are moderately working capital intensive in nature marked by gross current assets (GCA) of 141 days in FY2019 (Provisional) and 138 days in FY2018. This has led to moderate reliance on working capital borrowings; the cash credit limit in the company remained utilised at 87.95 percent for last six months ending 31 March, 2019. The company maintains unencumbered cash and bank balances of Rs.0.64 crore as on 31 March, 2019 (Provisional). The current ratio of the company stands moderate at 2.24 times as on 31 March, 2019 (Provisional). Acuite believes that the liquidity of the company is likely to remain moderate over the medium term on account of increase in revenues, net cash accruals and no major repayments over the medium term.

Outlook: Stable

Acuite believes the DFPL will maintain 'Stable' outlook over the medium term on account of the company's established track record of operations in the cotton yarn industry and extensive experience of its promoters. The outlook may be revised to 'Positive' in case of substantial increase in profitability margins supported by healthy revenue growth or significant improvement in its capital structure owing to equity infusion by promoters. Conversely, the outlook may be revised to 'Negative' in case of sharp decline in profitability margins or deterioration in the financial risk profile due to debt-funded capital expenditure or elongated working capital cycle.

About the Rated Entity - Key Financials

	Unit	FY19 (Provisional)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	197.33	181.55	162.23
EBITDA	Rs. Cr.	10.34	9.23	7.85
PAT	Rs. Cr.	3.98	3.88	3.64
EBITDA Margin	(%)	5.24	5.09	4.84
PAT Margin	(%)	2.02	2.14	2.24
ROCE	(%)	9.62	11.75	11.56
Total Debt/Tangible Net Worth	Times	0.75	0.76	0.41
PBDIT/Interest	Times	3.43	3.22	4.09
Total Debt/PBDIT	Times	3.65	3.38	1.90
Gross Current Assets (Days)	Days	141	138	97

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

Crissil vide its press release dated 15 March, 2019 has migrated the ratings of Devika Fibres Private Limited (DFPL) to 'CRISIL BB+/Stable/CRISIL A4+ Issuer not is cooperating' based on best-available information.

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. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	31.00*	ACUITE BBB-/ Stable
Term loans	Not Applicable	Not Applicable	Not Applicable	7.50	ACUITE BBB-/ Stable
Bank guarantee	Not Applicable	Not Applicable	Not Applicable	2.50	ACUITE A3

*includes sub limits of EPC/PCFC/FBD/EBR of Rs. 11.00 crore and Letter of Credit of Rs. 6.00 crore.

Contacts

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About Acuite Ratings & Research:

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