

Press Release

Devika Fibres Private Limited

D-U-N-S® Number: 67-619-3165

February 10, 2020



Rating Reaffirmed

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

Refer Annexure for details

* The issuer did not co-operate; based on best available information.

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

Surat based DFPL was incorporated in 1992. The company is engaged in texturizing 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 Texturizing) and 3600 MTPA (Filament Yarn Sizing).

Analytical Approach

Acuité has considered standalone approach of 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 market presence of more than two decades in Polyester Yarn Industry in India for their products. DFPL is promoted and managed by Mr. Gopal Sultania and Mr. Ashok Sultania. The promoters has 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 the company to establish longstanding relationship with its customers and suppliers. Acuité believes that the company will continue to benefit from its established presence in the industry and its improving business risk profile over the medium term.

- Improving scale of operations**

The operating income of the company improved to Rs. 218.28 crore in FY2019 as compared to Rs. 181.55 crore in FY2018. The operating income has registered growth of ~20.23 percent Y-o-Y. The company has booked revenue of Rs. 141.33 crore (Provisional) for nine months ending December 2019. The operating margins of the company stood at 4.67 percent in FY2019 as compared to 5.09 percent in FY2018. The company is also focusing on exports which stood at Rs. 54.12 crores i.e. ~28.00 percent of total sales in FY2019. Acuité 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 moderate net worth, comfortable gearing and debt protection metrics. The net worth of company improved to Rs. 60.79 crore as on 31 March, 2019 as compared to Rs. 49.73 crore as on 31 March, 2018 on account of healthy accretion to reserves during the same period. The net worth includes unsecured loans of Rs.9.78 crores in FY2019 and Rs.2.54 crores as same are subordinated to bank debt. The gearing ratio (debt-equity) stood comfortable at 0.54 times as on 31 March, 2019 and 0.67 times as on 31 March, 2018. The gearing of the company is expected to remain low over the medium term in absence of any major debt funded capex plans and moderate accretion to reserves. The total debt of Rs. 32.95 crore as on March 31, 2019 consists of long-term debt of Rs. 7.97 crore and working capital borrowings of Rs. 24.98 crore. The interest coverage ratio stood at 2.94 times as on 31 March, 2019 as compared to 3.22 times as on 31 March, 2018. The TOL/TNW stood comfortable at 0.72 times as on 31 March, 2019 as compared to 0.92 times as on 31 March, 2018. The debt service coverage ratio (DSCR) stood at 1.98 times in FY2019 and 2.02 times in FY2018. NCA/TD (Net Cash Accruals to Total Debt) ratio stood at 0.18 times in FY2019 and FY2018.

Acuité believes that the financial risk profile of the company is expected to remain moderate over the medium term in absence of any major debt funded capex and moderate net cash accruals.

Weaknesses

• **Moderately intensive working capital operations**

The working capital operations of the company are moderately intensive in nature marked by gross current assets (GCA) of 128 days in FY2019 as against 138 days in FY2018. The GCA days are dominated by inventory holding period of 57 days in for FY2019 as compared to 44 days in FY2018. However, receivables days have improved to 56 days in FY2019 as against 75 days in FY2018. Thus resulting in moderate reliance on working capital bank limit utilisation which stood at ~67.50 percent for last six months ending 31 December, 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. The same can be observed through uneven operating margins for period under review. 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: Adequate

DFPL has adequate liquidity marked by moderate net cash accruals to its maturing debt obligations. The company generated cash accruals of Rs. 6.22 crores for FY2019 against its repayment obligations of Rs.0.91 crores. The working capital operations of the company are moderately intensive in nature marked by gross current assets (GCA) days of 141 for FY2019 and 138 days in FY2018. This has led to moderate reliance on working capital borrowings; the cash credit limit in the company remained utilized at ~67.50 percent for last six months ending 31 December, 2019. The company maintains unencumbered cash and bank balances of Rs.0.64 crore as on 31st March 2019. The current ratio of the company stands moderate at 2.24 times as on 31st March 2019. Acuité 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.

Rating Sensitivities

- Improving revenues and profitability which will impact the overall financial risk profile
- Significant decline in margins resulting in lower than expected net cash accruals
- Significant debt funded capex beyond expected level leading to deterioration in capital structure

Outlook: Stable

The company 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 (Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	218.28	181.55
PAT	Rs. Cr.	3.81	3.88
PAT Margin	(%)	1.75	2.14
Total Debt/Tangible Net Worth	Times	0.54	0.67
PBDIT/Interest	Times	2.94	3.22

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

Not Applicable

Any other information

None

Applicable Criteria

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

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
22-May-2019	Cash Credit	Long Term	31.00*	ACUITE BBB-/Stable (Assigned)
	Term Loan	Long Term	7.50	ACUITE BBB-/Stable (Assigned)
	Bank Guarantee	Short Term	2.50	ACUITE A3 (Assigned)

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

#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 (Reaffirmed)
Term loans	19-03-2015	Not Applicable	19-01-2024	7.50	ACUITE BBB- / Stable (Reaffirmed)
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	2.50	ACUITE A3 (Reaffirmed)

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

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About Acuité Ratings & Research:

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