Press Release

Devika Fibres Private Limited

May 06, 2021

Rating Reaffirmed and Assigned

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

** Refer Annexure for details*

Rating Rationale

Acuité has reaffirmed the 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. 39.74 Cr bank facilities. Further. Acuité has also assigned the long term rating of **'ACUITE BBB-' (read as ACUITE triple B minus)** on the Rs. 1.26 Cr bank facilities. Total rated facilities of Devika Fibres Private Limited is Rs. 41.00 Cr. The outlook is **'Stable'**.

About the Company

Devika Fibres Private Limited (DFPL), based at Surat, was established in the year 1992. The company is engaged in texturising 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 Texturising) and 3600 MTPA (Filament Yarn Sizing).

Analytical Approach

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

Key Rating Drivers

Strengths

- **Experienced management and established track record of operations**
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. 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.

- **Stable financial performance with stable profit margins albeit moderation expected in FY2021**
The company has reported a decrease in revenue in FY2020 at Rs. 197.79 Cr. as against Rs. 218.28 Cr. in FY2019 on the back of reduced realization from fall in prices. However, the company has been able to maintain stable operating margins in FY2020 at 4.33 percent as against 4.67 percent in FY2019. However, revenue in FY2021 is expected to dampen as the company expects a revenue of ~ Rs. 150 Cr. in FY2021 as the company performance was impacted during the Q1FY2021 due to nationwide lockdown arising out of Covid-19 pandemic. The company's performance gradually started operating at optimum capacity from June 20 onwards and achieved normal functioning from November 2020 onwards. The revenue in FY2022 and FY2023 is projected to remain stable. The company is undertaking capex for

installing solar power generation plant for captive consumption. As informed by the management, company is currently procuring power by Gujarat government at the rate Rs. 7.50 per unit and post the solar plant becomes operational the cost would reduce to Rs. 2.50 per unit. The plant is proposed to become operational by end of September 2021.

- **Moderate financial risk profile and coverage indicators**

The financial risk profile continues to remain moderate marked by moderate net worth, gearing and debt protection measures. The tangible net worth stood at Rs. 53.46 Cr. as on March 31, 2020. (FY2019: Rs. 51.01 Cr. and FY18: Rs.47.19 Cr.). The gearing stood moderate at 0.70 times as on March 31, 2020 as against 0.84 times as on March 31, 2019. The total borrowings of Rs. 37.34 Cr. as on March 31, 2020 comprises of short term borrowings of Rs 24.21 Cr and long term borrowings of Rs. 6.10 Cr. The net cash accruals stood at Rs. 4.68 Crore for FY2020. The interest coverage ratio (ICR) marginally deteriorated and stood at 2.41 times in FY2020 (FY2019: 2.94x and FY2018: 3.22x). The total outside liabilities to tangible net worth marginally improved and stood at 0.85x as on March 31, 2020 (FY2019: 1.05x and FY2018: 1.02x) on the back of reduction in long term borrowings. Acuité believes that the financial risk profile of the company is expected to remain moderate with regular accretions to reserves and increase in operations.

Weaknesses

- **Moderate Working Capital Management**

The operations of the company are moderately working capital intensive in nature. The Gross current asset (GCA) days have improved to 88 days as on March 31, 2020 from 105 days as on March 31, 2019. This is mainly on account of reduction in inventory holding days to 46 as on March 31, 2020 from 57 days as on March 31, 2019. The debtor days improved to 49 days as on March 31, 2020 from 56 days as on March 31, 2019. Acuité believes that the company's ability to efficiently manage its working capital requirements will remain the key rating sensitivity.

- **Intense competition and Challenging business environment**

DFPL operates in textile industry which is marked my 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.

Rating Sensitivities

- Improving scale of operations while maintaining profitability.
- 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

Material Covenants

None

Liquidity Position: Adequate

The company maintains a stable liquidity position marked by net cash accruals of Rs. 4.68 Cr and Rs. 6.08 Cr as on financial year ended March 31, 2020 and March 31, 2019 respectively against minimal long term debt repayment over the same period. The current ratio of the company stood at 2.11x as on March 31, 2020 and 2.24x as on March 31, 2019 and NCA/TD stood at 0.16 times as on March 31, 2020 and 0.18 times in the previous year. The cash accruals are estimated to be around Rs. 4- Rs. 5 Cr during FY2021-23 vis-à-vis repayment obligations in the range of Rs. 2 - Rs 2.5 Cr. The average working utilization of the company for past twelve months ended February'2021 stood moderate at 59.71%.

Outlook: Stable

Acuité believes that DFPL will continue to maintain 'Stable' outlook over the medium term from its promoter's industry experience. The outlook may be revised to 'Positive' if the company reports increase in operating revenues with improvement in its margins and cash accruals. Conversely, the outlook may be revised to 'Negative' if company generates lower-than-anticipated cash accruals, most likely as a result of sharp decline in operating margins, or further stretch in its working capital cycle, or larger than expected debt funded capex impacting its financial risk profile, particularly its liquidity.

About the Rated Entity - Key Financials

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	197.79	218.28
PAT	Rs. Cr.	2.45	3.81
PAT Margin	(%)	1.24	1.75
Total Debt/Tangible Net Worth	Times	0.70	0.84
PBDIT/Interest	Times	2.41	2.94

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
- Infrastructure Entities: https://www.acuite.in/view-rating-criteria-51.htm
- Financial Ratios And Adjustments: https://www.acuite.in/view-rating-criteria-53.htm
- Entities In Services Sector: https://www.acuite.in/view-rating-criteria-50.htm

Note on complexity levels of the rated instrument

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

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
10-Feb-2020	Cash Credit	Long Term	31.00*	ACUITE BBB-/Stable (Reaffirmed)
	Term Loan	Long Term	7.50	ACUITE BBB-/Stable (Reaffirmed)
	Bank Guarantee	Short Term	2.50	ACUITE A3 (Reaffirmed)
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	23.50* (Reduced from 31.00)	ACUITE BBB-/Stable (Reaffirmed)
Term Loan	Not Available	9.50%	Not Available	14.24 (Increased from 7.50)	ACUITE BBB-/Stable (Reaffirmed)
Proposed Facility	Not Applicable	Not Applicable	Not Applicable	1.26	ACUITE BBB-/Stable (Assigned)

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	2.00 (Reduced from 2.50)	ACUITE A3 (Reaffirmed)

Contacts

Analytical	Rating Desk
Aditya Gupta Vice President - Corporate and Infrastructure Sector Tel: 022 49294041 aditya.gupta@acuite.in Shruti Doshi Manager– Rating Operations Tel: 022 49294000 shruti.doshi@acuite.in	Varsha Bist Senior Manager - Rating Desk Tel: 022 49294011 rating.desk@acuite.in

About Acuité Ratings & Research:

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