

## Press Release

Devika Fibres Private Limited

July 27, 2022



### Rating Assigned and Reaffirmed

| Product                            | Quantum (Rs. Cr) | Long Term Rating                  | Short Term Rating      |
|------------------------------------|------------------|-----------------------------------|------------------------|
| Bank Loan Ratings                  | 2.00             | -                                 | ACUITE A3   Reaffirmed |
| Bank Loan Ratings                  | 29.69            | ACUITE BBB-   Stable   Assigned   | -                      |
| Bank Loan Ratings                  | 39.00            | ACUITE BBB-   Stable   Reaffirmed | -                      |
| Total Outstanding Quantum (Rs. Cr) | 70.69            | -                                 | -                      |
| Total Withdrawn Quantum (Rs. Cr)   | 0.00             | -                                 | -                      |

### Rating Rationale

Acuite has reaffirmed its long term rating of '**ACUITE BBB-**' (read as **ACUITE Triple B Minus**) and short term rating of '**ACUITE A3**' (read as **ACUITE A Three**) on the Rs. 41.00 Cr bank facilities of Devika Fibres Private Limited (DFPL). The outlook is '**Stable**'.

Further, Acuite has also assigned its long term rating of '**ACUITE BBB-**' (read as **ACUITE triple B minus**) on the Rs. 29.69 Cr bank facilities of DFPL. The outlook is '**Stable**'.

#### Rationale for rating

The rating continues to derive comfort from established presence of the company in industry along with experienced management. Further, the rating reflects the longstanding relationship of company with its customer and supplier along with moderate financial risk profile and low reliance on short term bank borrowing. However, the rating is constrained by the working capital intensive nature of operations and volatility in raw material prices.

#### About the Company

Devika Fibres Private Limited (DFPL) established in 1993, is engaged in texturizing of Polyester Filament Yarn (PFY), catering mainly to the local weaving units in domestic market with presence in export market. The manufacturing facility is in at Kudsad village in Gujarat while the marketing activities are carried out from Surat. Company is promoted and managed by Mr. Gopal Sultania and Mr. Ashok Sultania. The company has installed capacity of 24,000 MTPA (Polyester Filament Yarn Texturising) and 3600 MTPA (Filament Yarn Sizing).

#### Analytical Approach

Acuite 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.

### >Moderate Financial Risk Profile

The financial risk profile of the company stood moderate marked by moderate net worth, gearing and debt protection metrics. The tangible net worth stood at Rs.63.71 crore as on 31 March, 2022 (Prov) as against Rs.58.19 crore as on 31 March, 2021 and Rs.53.46 crore as on 31 March, 2020. The increase in networth is majorly due to accretion of profits. The total debt of the company stood at Rs.61.65 crore includes Rs.32.07 crore of long-term debt, Rs.17.01 crore of short-term debt, Rs.9.34 crore of unsecured loans and Rs.3.23 crore of CPLTD as on 31 March 2022 (Prov). The gearing (debt-equity) stood at 0.97 times as on 31 March, 2022 (Prov) as compared to 0.85 times as on 31 March, 2021 and 0.70 times as on 31 March, 2020. The company has recently availed a loan for the solar power plant which resulted in increase of debt and gearing ratio in FY 2022 (Prov.). Interest Coverage Ratio stood at 4.01 times for FY2022 (Prov) as against 5.13 times for FY2021 and 2.41 times for FY2020. Debt Service Coverage Ratio (DSCR) stood at 3.03 times in FY2022 (Prov) as against 2.42 times in FY2021 and 1.66 times in FY2020. Total outside Liabilities/Total Net Worth (TOL/TNW) stood at 1.19 times as on 31 March, 2022 (Prov) as against 1.22 times as on 31 March, 2021. Net Cash Accruals to Total Debt (NCA/TD) stood at 0.22 times for FY2022 (Prov).

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

### >Moderately Intensive Working Capital Management

The working capital management of the company is moderately intensive marked by GCA days of 109 days in FY2022 (Prov) as against 177 days in FY2021 and 116 days in FY2020. The debtor days stood at 43 days in FY2022 (Prov) as against 55 days in FY2021 which is in line with the average credit period allowed to customers of 07 – 60 days. However, the creditor days stood at 08 days in FY2022 (Prov) as against 22 days in FY2021 and the inventory days stood at 43 days in FY2022 (Prov) as against 94 days in FY2021.

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 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.

## 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's liquidity position is adequate marked by sufficient net cash accruals against its maturing debt obligations. The company has net cash accruals in the range of Rs.4.68-Rs.13.71 Crore from FY 2020- 2022 against its maturing debt obligations in the range of Rs.1.21-Rs.3.23 crore in the same tenure. In addition, it is expected to generate a sufficient cash accrual in the range of Rs.15.06-Rs.17.94 crores against the maturing repayment obligations of around Rs.5.36 crore over the medium term. The working capital management of the company is moderately intensive marked by GCA days of 109 days in FY2022 (Prov) as against 177 days in FY2021. The company maintains unencumbered cash and bank balances of Rs.0.02 crore as on March 31, 2022 (Prov). The current ratio stands at 2.83 times as on March 31, 2022 (Prov). The average bank limit utilization for the past 06 months March 2022 is ~ 62 percent.

Acuité believes that the liquidity of the Firm is likely to remain adequate over the medium term on account of sufficient net cash accruals against debt repayments.

### 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.

### Key Financials

| Particulars                   | Unit    | FY 22 (Provisional) | FY 21 (Actual) |
|-------------------------------|---------|---------------------|----------------|
| Operating Income              | Rs. Cr. | 286.62              | 184.31         |
| PAT                           | Rs. Cr. | 4.31                | 4.15           |
| PAT Margin                    | (%)     | 1.50                | 2.25           |
| Total Debt/Tangible Net Worth | Times   | 0.97                | 0.85           |
| PBDIT/Interest                | Times   | 4.01                | 5.13           |

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

CRISIL, vide its press release dated September 20, 2021, has mentioned the rating of DFPL as 'B+/Stable/A4 Issuer Not Cooperating' as on September, 2021.

### Any other information

Not Available.

### Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- 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>

### Note on complexity levels of the rated instrument

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

### Rating History

| Date | Name of Instruments/Facilities | Term      | Amount (Rs. Cr) | Rating/Outlook                    |
|------|--------------------------------|-----------|-----------------|-----------------------------------|
|      | Term Loan                      | Long Term | 14.24           | ACUITE BBB-   Stable (Reaffirmed) |

|             |                        |            |       |                                   |
|-------------|------------------------|------------|-------|-----------------------------------|
| 06 May 2021 | Proposed Bank Facility | Long Term  | 1.26  | ACUITE BBB-   Stable (Assigned)   |
|             | Cash Credit            | Long Term  | 23.50 | ACUITE BBB-   Stable (Reaffirmed) |
|             | Bank Guarantee         | Short Term | 1.26  | ACUITE A3 (Reaffirmed)            |
| 10 Feb 2020 | Term Loan              | Long Term  | 7.50  | ACUITE BBB-   Stable (Reaffirmed) |
|             | Cash Credit            | Long Term  | 31.00 | 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)              |

## Annexure - Details of instruments rated

| Lender's Name       | ISIN           | Facilities                       | Date Of Issuance | Coupon Rate    | Maturity Date  | Quantum (Rs. Cr.) | Rating                            |
|---------------------|----------------|----------------------------------|------------------|----------------|----------------|-------------------|-----------------------------------|
| State Bank of India | Not Applicable | Bank Guarantee (BLR)             | Not Applicable   | Not Applicable | Not Applicable | 2.00              | ACUITE A3   Reaffirmed            |
| State Bank of India | Not Applicable | Cash Credit                      | Not Applicable   | Not Applicable | Not Applicable | 18.00             | ACUITE BBB-   Stable   Reaffirmed |
| Axis Bank           | Not Applicable | Cash Credit                      | Not Applicable   | Not Applicable | Not Applicable | 7.00              | ACUITE BBB-   Stable   Assigned   |
| State Bank of India | Not Applicable | PC/PCFC                          | Not Applicable   | Not Applicable | Not Applicable | 2.20              | ACUITE BBB-   Stable   Reaffirmed |
| State Bank of India | Not Applicable | PC/PCFC                          | Not Applicable   | Not Applicable | Not Applicable | 5.80              | ACUITE BBB-   Stable   Assigned   |
| Not Applicable      | Not Applicable | Proposed Long Term Bank Facility | Not Applicable   | Not Applicable | Not Applicable | 1.07              | ACUITE BBB-   Stable   Reaffirmed |
| State Bank of India | Not Applicable | Term Loan                        | Not available    | 9.5            | Not available  | 17.73             | ACUITE BBB-   Stable   Reaffirmed |
| Axis Bank           | Not Applicable | Term Loan                        | Not available    | Not available  | Not available  | 16.74             | ACUITE BBB-   Stable   Assigned   |
| Axis Bank           | Not Applicable | Term Loan                        | Not available    | Not available  | Not available  | 0.15              | ACUITE BBB-   Stable   Assigned   |

## Contacts

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### About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & 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. Acuité has assigned 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 Kanjurmarg, Mumbai.

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