



Press Release
Devika Fibres Private Limited
October 20, 2023
Rating Assigned and Downgraded

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	18.00	ACUITE BB+ Stable Assigned	-
Bank Loan Ratings	68.69	ACUITE BB+ Stable Downgraded	-
Bank Loan Ratings	2.00	-	ACUITE A4+ Downgraded
Total Outstanding Quantum (Rs. Cr)	88.69	-	-

Rating Rationale

Acuite has downgraded its long term rating to '**ACUITE BB+**' (read as **ACUITE double B Plus**) from '**ACUITE BBB-**' (read as **ACUITE Triple B Minus**) and short term rating to '**ACUITE A4+**' (read as **ACUITE A Four Plus**) from '**ACUITE A3**' (read as **ACUITE A Three**) on the Rs. 70.69 Cr bank facilities of Devika Fibres Private Limited (DFPL). Further, Acuite has also assigned its long term rating of '**ACUITE BB+**' (read as **ACUITE Double B plus**) on the Rs. 18.00 Cr bank facilities of DFPL. The outlook is '**Stable**'.

Rationale for Downgrade

The downgrade in the rating reflects deterioration in the operating performance of DFPL marked by declining profitability margins and stretched liquidity position. The operating margins of the company deteriorated from 6.35 percent in FY22 to 2.41 percent in FY23. Such deterioration is seen on account of an increase in cost of raw materials. Also, the PAT margins deteriorated from 2.73 percent in FY22 to (1.20) percent in FY23. The deterioration in PAT margins is on account of high depreciation and interest costs. Further, the rating also factors in the stretched liquidity position of the company, marked by low net cash accruals against repayment obligations and high reliance on bank debt to fund its working capital requirements. The average utilization of fund-based bank limits stood at ~90-95% percent for the working capital facilities for the past 08 months ended August 2023. Also, the rating takes into consideration intensive working capital operations, intense competition and challenging business environment. Going forward, the company's ability to improve its liquidity position and improve its profitability margins over the medium term while maintaining its capital structure will remain a key rating monitorable.

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.

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. The experience of promoters is reflected through stable scale of operations over three years, with revenue of Rs.298.19 Cr in FY2023 as against Rs.287.07 Cr in FY2022. However, the company has achieved Rs.112 Cr till August 2023 and is targeting a revenue of around Rs.300 Cr for FY2024. Further, the exports constitutes of 15% of revenue earned in FY2023 with majority being in the key markets of South Korea, Germany, Bangladesh, Morocco, Nepal and among others.

Acuité believes that the company will continue to benefit from its established presence in the industry 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.62.45 crore as on 31 March, 2023 as against Rs.66.03 crore as on 31 March, 2022. The total debt of the company stood at Rs.90.77 crore includes Rs.46.83 crore of long-term debt, Rs.30.87 crore of short-term debt, Rs.8.88 crore of unsecured loans and Rs.4.20 crore of CPLTD as on 31 March 2023. The gearing (debt-equity) stood at 1.45 times as on 31 March, 2023 as compared to 0.93 times as on 31 March, 2022. Interest Coverage Ratio stood at 1.41 times for FY2023 as against 3.94 times for FY2022. Debt Service Coverage Ratio (DSCR) stood at 0.97 times in FY2023 as against 2.74 times in FY2022. Total outside Liabilities/Total Net Worth (TOL/TNW) stood at 1.72 times as on 31 March, 2023 as against 1.14 times as on 31 March, 2022. Net Cash Accruals to Total Debt (NCA/TD) stood at 0.03 times for FY2023 as against 0.19 times for FY2022.

Acuité believes that the financial risk profile of the company is expected to remain moderate with regular accretions to reserves in the medium term.

Weaknesses

>Intensive Working Capital Management

The working capital management of the company is intensive marked by GCA days of 127 days in FY2023 as against 103 days in FY2022. The debtor days stood at 48 days in FY2023 as against 44 days in FY2022 which is in line with the average credit period allowed to customers of 30 – 60 days. However, the creditor days stood at 19 days in FY2023 as against 13 days in FY2022 which is in line with credit period of 15-30 days. The inventory days stood at 64 days in FY2023 as against 42 days in FY2022. Generally, the inventory holding period that the company follows is 60-90 days. As a result, the average working capital utilization for fund-based limits stood at ~90-95 percent and for non-fund-based limits stood at ~65-70 percent for the last 08 months ending August 2023.

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

- Stretch in the working capital cycle leading to stretched liquidity position.
- 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.

All Covenants

Not Available

Liquidity Position: Stretched

The company's liquidity position is stretched as the average bank limit utilization for the past 08 months ending August 2023 is 90-95% percent. Further, the company has insufficient net cash accruals of Rs.2.63 Cr in FY2023 as against its maturing debt obligations of Rs.4.20 Cr in the same year. In addition, it is expected to generate a sufficient cash accrual in the range of Rs.6.56-Rs.8.00 crores against the maturing repayment obligations of around Rs.4.79 crore over the medium term. The working capital management of the company is intensive marked by GCA days of 127 days in FY2023 as against 103 days in FY2022. The current ratio stands at 2.33 times as on March 31, 2023 as against 3.24 times as on March 31, 2022.

Acuité believes that the liquidity of the company is likely to remain adequate over the medium term on account of adequate cash accruals to its maturing debt obligation.

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.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 23 (Actual)	FY 22 (Actual)
Operating Income	Rs. Cr.	298.19	287.07
PAT	Rs. Cr.	(3.59)	7.84
PAT Margin	(%)	(1.20)	2.73
Total Debt/Tangible Net Worth	Times	1.45	0.93
PBDIT/Interest	Times	1.41	3.94

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

Crisil vide its press release dated 19th Nov 2022, had rated the company to CRISIL B+/stable/A4; Issuer Not Cooperating.

India Ratings vide its press release dated 24th July 2023, had rated the company to IND-RA BB/A4+; Issuer Not Cooperating.

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>
- Trading Entity: <https://www.acuite.in/view-rating-criteria-61.htm>
- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

In order to inform the investors about complexity of instruments, Acuite has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
27 Jul 2022	Cash Credit	Long Term	7.00	ACUITE BBB- Stable (Assigned)
	Bank Guarantee	Short Term	2.00	ACUITE A3 (Reaffirmed)
	Term Loan	Long Term	17.73	ACUITE BBB- Stable (Reaffirmed)
	Packing Credit	Long Term	2.20	ACUITE BBB- Stable (Reaffirmed)
	Term Loan	Long Term	0.15	ACUITE BBB- Stable (Assigned)
	Cash Credit	Long Term	18.00	ACUITE BBB- Stable (Reaffirmed)
	Proposed Bank Facility	Long Term	1.07	ACUITE BBB- Stable (Reaffirmed)
	Term Loan	Long Term	16.74	ACUITE BBB- Stable (Assigned)
	Packing Credit	Long Term	5.80	ACUITE BBB- Stable (Assigned)
06 May 2021	Term Loan	Long Term	14.24	ACUITE BBB- Stable (Reaffirmed)
	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)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
State Bank of India	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	Simple	2.00	ACUITE A4+ Downgraded
State Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	11.00	ACUITE BB+ Stable Downgraded
Axis Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	7.00	ACUITE BB+ Stable Downgraded
Axis Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	7.00	ACUITE BB+ Stable Assigned
State Bank of India	Not Applicable	PC/PCFC	Not Applicable	Not Applicable	Not Applicable	Simple	8.00	ACUITE BB+ Stable Downgraded
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Simple	0.40	ACUITE BB+ Stable Assigned
Axis Bank	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	16.73	ACUITE BB+ Stable Downgraded
Axis Bank	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	0.15	ACUITE BB+ Stable Downgraded
State Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	25.81	ACUITE BB+ Stable Downgraded
State Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	10.60	ACUITE BB+ Stable Assigned

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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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