

Press Release

Dignity Innovations

D-U-N-S® Number: 91-561-5843

July 04, 2019

Rating Assigned



Total Bank Facilities Rated*	Rs. 25.00 Cr.
Short Term Rating	ACUITE A4

* Refer Annexure for details

Rating Rationale

Acuite has assigned short term rating of '**ACUITE A4**' (read as **ACUITE A four**) on the Rs. 25.00 crore bank facilities of DIGNITY INNOVATIONS (DI).

Dignity Innovations (DI) is a Tamil Nadu based partnership firm established in 1994 and converted to sole proprietorship in 2015. The firm is promoted by Mr. S Rajasekaran. The firm is engaged in manufacturing of readymade garments, which mainly caters to the exports clients in United States, Europe, Dubai and Australia. The firm has six manufacturing facilities at Chennai with total installed capacity of 7 lakh pieces per month. The firm is a part of Avigna group which is into diversified business sectors, namely, real estate and education among others.

Analytical Approach

Acuite has considered the standalone business and financial risk profile of Dignity Innovations to arrive at this rating.

Key Rating Drivers

Strengths

- **Experienced management and long track record of operations**

The firm is promoted by Mr. S Rajasekaran who possess more than two decades of experience in the textile industry. Further, the promoter is supported by well experienced operations and marketing team with vast experience in the textile industry. The firm has established relations with its customers, namely, Primark Limited, TJX Companies INC and Teddy Smith SA among others. Acuite believes that the company will benefit from the experienced management and established relations with the customers over the medium term.

- **Improvement in revenues**

Revenues of the firm grew at a compounded annual growth rate (CAGR) of 35.28 percent from Rs.32.75 crore in FY2016 to Rs.81.08 crore in FY2019 (Provisional basis). Growth in revenues is backed by increase in orders from the customers and increase in capacity. The firm reported revenues of Rs.15 crore for 2MFY2020. Further, as of May 2019, the company has orders of about Rs.40 crore in hand to be executed in the next 2 months period. Acuite believes that the firm will benefit from the established relations with its customers.

Weaknesses

- **Below average financial risk profile**

Financial risk profile of the firm is below average marked high gearing (Debt-Equity), total outside liabilities to total net worth (TOL/TNW) and moderate debt protection metrics. Gearing is moderately high at 3.26 times as on March 31, 2019 (provisional) as against 3.31 times as on 31 March, 2018. TOL/TNW is high at 6.96 times as on March 31, 2019 (provisional) as against 6.97 times as on 31 March, 2018. Net worth is modest at Rs.7.04 crore as on 31 March, 2019 (Provisional) as against Rs.6.88 crore as on 31 March, 2018. Debt protection metrics of interest coverage ratio and net cash accruals to total

debt (NCA/TD) stood moderate at 1.51 times and 0.07 times in FY2019 (Provisional) as against 1.47 times and 0.07 times in FY2018, respectively. The cash accruals are about Rs.1.58 crore in FY2019 (provisional) against Rs.1.68 crore in FY2018. Revenues and cash accruals are expected to improve on account of expected stabilisation of operations in the two factory premises which were

purchased in FY2018-FY2019. Cash accruals are expected at about Rs.4-5 crore against the repayment obligations of about Rs.1.5-2 crore over the medium term. Acuite believes that with moderate accruals and working capital intensive operations, the financial risk profile is expected to be moderate over the medium term.

• Decline in profitability

Operating margins of the firm declined from 10.77 percent in FY2017 to 5.00 percent in FY2018 and 5.69 percent in FY2019. This is mainly due to increase in overhead costs on account of addition of two manufacturing facilities where the operations are yet to stabilise.

• Advances to group entities

The company has given advances to its group entity 'Avigna Ventures Private Limited' (AVPL) by taking loan from financial institutions. The loan obligations including interest are expected to be serviced by the firm and the same is likely to impact its cash flows.

• Working capital intensive operations

Operations of the firm are working capital intensive marked by high gross current asset (GCA) of 219 days for FY 2019 (Provisional) as compared 318 days for FY 2018. This is mainly on account of high inventory cycle and supplier advances for raw material purchases. Inventory cycle is moderate at 74 days in FY2019 (Provisional) as against 62 days in FY2018. Debtor days are moderate and improved to 57 days in FY2019 (Provisional) as against 114 days in FY2018. The bank lines are fully utilised over six months through April 2019. Acuite believes that with moderate accruals and expected improvement in revenues, the operations continue to be working capital intensive over the medium term.

Liquidity position

Liquidity of the DI is stretched marked by full utilisation of its bank lines owing to working capital intensive operations and advances to its group entity. It has reported cash accruals of about Rs.1.58 crore in FY2019 (provisional) against Rs.1.68 crore in FY2018. Cash accruals are expected at about Rs.3-4 crore against the repayment obligations of about Rs.1.5 crore over the medium term. Operations are working capital intensive with GCA of 219 days in FY2019 (Provisional). Bank lines are fully utilised over six months through March 2019. However, current ratio is stood poor at 0.90 times in FY2019 (Provisional) and 0.89 times in FY2018.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	56.39	43.42	32.75
EBITDA	Rs. Cr.	2.82	4.68	2.70
PAT	Rs. Cr.	1.35	2.01	1.57
EBITDA Margin	(%)	5.00	10.77	8.26
PAT Margin	(%)	2.39	4.62	4.79
ROCE	(%)	18.27	21.86	32.80
Total Debt/Tangible Net Worth	Times	3.31	6.22	6.24
PBDIT/Interest	Times	1.47	1.95	2.67
Total Debt/PBDIT	Times	4.32	4.51	5.05
Gross Current Assets (Days)	Days	318	196	202

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

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-17.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
PC/PCFC	Not Applicable	Not Applicable	Not Applicable	7.00	ACUITE A4
FBN/FBP/FBD/PSFC/FBE	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE A4
Letter of credit	Not Applicable	Not Applicable	Not Applicable	8.00	ACUITE A4

Contacts

Analytical	Rating Desk
<p>Srihari Adari Head - Corporate and Infrastructure Sector Ratings Tel: 040-40042327 srihari.adari@acuite.in</p> <p>Naveen Papisetty Analyst - Rating Operations Tel: 040-40055480 naveen.papisetty@acuite.in</p>	<p>Varsha Bist Manager - Rating Desk Tel: 022-67141160 rating.desk@acuite.in</p>

About Acuité Ratings & Research:

Acuité Ratings & Research Limited (Erstwhile SMERA Ratings Limited) is a full-service Credit Rating Agency registered with the Securities and 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. Since then, it has assigned more than 6,000 credit 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 Mumbai.

Disclaimer: An Acuité rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. Acuité ratings are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, Acuité, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. Acuité is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind arising from the use of its ratings. Acuité ratings are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website (www.acuite.in) for the latest information on any instrument rated by Acuité.