

Press Release

Durga Polysters Private Limited

September 08, 2020

Rating Assigned



Total Bank Facilities Rated*	Rs.47.00 Cr.
Long Term Rating	ACUITE BBB+/Stable (Assigned)
Short Term Rating	ACUITE A2 (Assigned)

* Refer Annexure for details

Rating Rationale

Acuite has assigned the long-term rating of '**ACUITE BBB+**' (read as **ACUITE triple B plus**) and the short-term rating of '**ACUITE A2**' (read as **ACUITE A two**) on the Rs. 47.00 Crore bank facilities of Durga Polysters Private Limited. The outlook is '**Stable**'.

Durga Polysters Private Limited was incorporated in 1997 by Mr. Kunj Bihari Sultania and Mr. Vipul Desai. The Company was incorporated in 1997 and was dormant till the present promoters acquired it and subsequently set up a dye processing unit at Surat, Gujarat. The company is engaged in dyeing and printing of various textile products on job work basis. The unit started commercial production from February 2010. Earlier the company was being managed by Desai family. Last year the promoters of Durga processors private limited takeover Durga Polysters Private Limited.

About the group

Surat, Gujarat based, Durga Processors Private Limited was incorporated in 1998 and is promoted by Mr. Kunj Bihari Sultania. The Company is engaged in dyeing and printing of various textile products on a job work basis.

Durga Group is a Surat based group promoted by Mr. Kunj Bihari Sultania in 1997. The group is comprised of three companies, Durga Processors Private Limited, Durga Polysters Private Limited and Durga Agro Park Private Limited.

Durga Processors Private Limited and Durga Polysters Private Limited is engaged into dyeing and printing of various textile products on a job work basis.

Durga Agro Park Private Limited was incorporated in 2012 by Mr. Kunj Bihari Sultania and Mr. Ashok Sultania. The company is engaged in agriculture and allied activities business.

Analytical Approach

Acuite has consolidated the business and financial risk profiles of Durga Polysters Private Limited and Durga Processors Private Limited together known as Durga Group, to arrive at this rating. The consolidation is on account of common management, a similar line of business, and financial linkages. Extent of consolidation: Full.

Key Rating Drivers

Strengths

- **Long track record of operations and experienced management**

Durga group was incorporated in 1997 by Mr. Kunj Bihari Sultania having an operational track record of more than two decades in the textile industry. Group's primary line of business is dyeing and printing of various textile products. Due to the long track record of operations, the group is considered as one of the top players in the aforementioned industry. Mr. Kunj Bihari Sultania possesses an experience of

around three decades in the dyeing and printing industry. The other directors, Mr. Gopal R. Sultania and Mr. Nandkishore Sharma both have experience of more than two decades in the dyeing and printing industry.

The extensive experience of the promoter has enabled the company to forge healthy relationships with customers. The group reported significant revenue growth with operating income of Rs.321.03 crore in FY2020 (Provisional) as against operating income of Rs.286.98 crore in FY2019, Rs.209.02 crore in FY2018 and Rs.194.51 crore in FY2017. The increase in the revenues is mainly on account of increase in demand. Acuite believes that the group will continue to benefit from its experienced management and long track record of operation in dyeing and printing industry.

• **Efficient working capital management**

The Group has efficient working capital operations marked by Gross Current Assets (GCA) of 123 days in FY2020 (Provisional) as against 135 days in FY2019. The inventory holding period stood at 26 days in FY2020 (Provisional) as against 30 days in FY2019. The receivable period stood at 70 days in FY2020 (Provisional) as compared to 76 days in FY2019. This is mainly due to timely payment from the customers. As a result, the average bank limit utilization stood at ~79 percent for the last six months ended June, 2020.

Acuite believes that the working capital operation will remain comfortable over the medium term due to the payment terms with its customers and suppliers.

• **Comfortable financial risk profile**

Group's financial risk profile remained comfortable marked by healthy net worth and weak debt protection metrics. The net worth of the company stood at Rs.105.98 Crore as on 31 March 2020 (Provisional) as against Rs.97.88 Crore as on 31 March 2019. Acuite has treated the unsecured loans from promoters and related parties of Rs.30.00 crore as quasi-equity. The net worth levels have seen significant improvement over the last three years on account of healthy accretion to reserves during the same period. The gearing level (debt-equity) stood at 1.17 times as on 31 March 2020 (Provisional) as against 1.39 times as on 31 March 2019. High gearing level is on account of a major amount of capex done during FY2017-18 and FY2018-19 for capacity enhancement.

The total debt of Rs.123.74 Crore as on 31 March 2020 (Provisional) consists of long term debt of Rs.87.64 Crore, Unsecured loans from promoters of Rs.13.51 Crore and working capital borrowings of Rs.22.59 Crore. The interest coverage ratio (ICR) stood at 3.38 times in FY2020 (Provisional) as against 3.50 times in FY2019 due to high-interest cost during the year. NCA/TD (Net Cash Accruals to Total Debt) ratio increased to 0.20 times in FY2020 (Provisional) as against 0.17 times in FY2019. Debt to EBITDA stood at 3.58 times in FY2020 (Provisional) as against 4.02 times in FY2019. This is mainly due to high external debt during the year.

Acuite believes that with adequate accruals to repayment obligations and moderate working capital operations, the financial risk profile is expected to be at a similar level over the medium term.

Weaknesses

• **Expected significant declining in revenue and profitability**

Although for the last few years the group's performance has continuously improved. The expectation for the current financial year has significantly declined due to major disruption caused because of the current Covid-19 pandemic and then followed by the nationwide lockdown. The group's operation was closed in the month of April and May and resumed its operation from June with a partial capacity. The group have only achieved revenue of ~Rs.25.79 Crore as of July 31, 2020.

Acuite believes that there will be an adverse impact on the level of revenue and profitability for the current financial year due to disruption in demand because of the current Covid-19 situation.

• **Highly competitive and fragmented nature of industry**

The group is operating in highly competitive and fragmented textile industry. It is exposed to intense competition from several organized and unorganized players operating in the industry. Group's income is derived from job work which is vulnerable to the intense competitive pressures and the cyclicity inherent in the domestic textile industry. Further, limited value-added nature of job work operations might lead to a moderate level of margins and low return indicators. Acuite believes the adverse impact of COVID-19 on the industry can lead to longer in the revival of demand than expected and will have a significant impact on operations over the current financial year.

Outlook: Stable

Acuite believes that Durga Group will continue to benefit over the medium term from the promoter's experience and established track record in the aforementioned industry. The outlook may be revised to 'Positive' if the group achieves more than envisaged sales while improving its liquidity. Conversely, the outlook may be revised to 'Negative' if the group fails to achieve the expected revenue and profitability and the financial risk profile further deteriorates owing to higher-than-expected increase in debt-funded working capital requirement.

Material Covenant

None

Rating sensitivity

- Higher than expected decline in operating revenues and profitability margins

Liquidity position: Adequate

The group has adequate liquidity, marked by adequate high net cash accruals to its maturing debt obligations. The group generated cash accruals of Rs.24.35 Crore in FY2020 (Provisional) as against debt maturity obligation of Rs.15.07 Crore for the year. The cash accruals of the company are estimated to remain in the range of around Rs.18.00 Crore to Rs.24.50 Crore during FY2021-23 against the CPLTD in the range of Rs.10.50-13.00 Crore each year for the same period. The company's working capital operations are moderate, marked by Gross Current Asset (GCA) days of 123 days in FY2020 (Provisional). As a result, the bank limits utilization stood at ~79 percent for six months ending in June, 2020. The company maintains unencumbered cash and bank balances of Rs.1.05 Crore as on 31 March 2020 (Provisional). The current ratio stands at 1.71 times as on 31 March 2020 (Provisional).

About the Rated Entity - Key Financials

	Unit	FY20 (Provisional)	FY19 (Actual)
Operating Income	Rs. Cr.	321.07	286.98
PAT	Rs. Cr.	7.32	4.17
PAT Margin	(%)	2.28	1.45
Total Debt/Tangible Net Worth	Times	1.17	1.39
PBDIT/Interest	Times	3.38	3.50

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

ICRA, vide its press release dated January 20, 2020 had denoted the rating of Durga Polysters Private Limited as 'ICRA B+/Stable/ICRA A4; ISSUER NOT COOPERATING (Downgraded)' on account of lack of adequate information required for monitoring of ratings.

CRISIL, vide its press release dated August 22, 2019 had denoted the rating of Durga Polysters Private Limited as 'CRISIL BB+/Stable/ICRA A4+; ISSUER NOT COOPERATING (Downgraded)' on account of lack of adequate information required for monitoring of ratings.

Any other information

Not Applicable

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>
- Consolidation of Companies - <https://www.acuite.in/view-rating-criteria-60.htm>

Note on complexity levels of the rated instrument

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

Rating History (Up to 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
Cash Credit	Not Applicable	Not Applicable	Not Applicable	6.00	ACUITE BBB+/Stable (Assigned)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	9.00	ACUITE BBB+/Stable (Assigned)
Term Loan	Not Available	Not Applicable	Not Available	0.60	ACUITE BBB+/Stable (Assigned)
Term Loan	Not Available	Not Applicable	Not Available	4.12	ACUITE BBB+/Stable (Assigned)
Term Loan	Not Available	Not Applicable	Not Available	1.33	ACUITE BBB+/Stable (Assigned)
Term Loan	Not Available	Not Applicable	Not Available	6.58	ACUITE BBB+/Stable (Assigned)
Term Loan	Not Available	Not Applicable	Not Available	2.02	ACUITE BBB+/Stable (Assigned)
Term Loan	02-12-2014	Not Applicable	02-12-2022	5.76	ACUITE BBB+/Stable (Assigned)
Term Loan	02-12-2014	Not Applicable	02-12-2022	2.54	ACUITE BBB+/Stable (Assigned)
Term Loan	Not Available	Not Applicable	Not Available	1.69	ACUITE BBB+/Stable (Assigned)
Term Loan	Not Available	Not Applicable	Not Available	2.99	ACUITE BBB+/Stable (Assigned)
Term Loan	Not Available	Not Applicable	Not Available	0.44	ACUITE BBB+/Stable (Assigned)
Term Loan	Not Available	Not Applicable	Not Available	0.90	ACUITE BBB+/Stable (Assigned)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE A2 (Assigned)
Proposed Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	0.50	ACUITE A2 (Assigned)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	0.53	ACUITE BBB+/Stable (Assigned)

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About Acuité Ratings & Research:

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