Damodar Industries Limited

February 01, 2021

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating[1]	Rating Action
Long term Bank Facilities	150.50 (150.50)	**CARE BB+; Stable; ISSUER NOT COOPERATING* (Double B Plus; Outlook: Stable; ISSUER NOT COOPERATING*)**	Issuer not cooperating; Revised from CARE BBB-; Stable (Triple B minus; Outlook: Stable) on the basis of best available information
Short term Bank Facilities	18.50 (18.50)	**CARE A4+; ISSUER NOT COOPERATING* (A Four Plus; Outlook: Stable; ISSUER NOT COOPERATING*)**	Issuer not cooperating; Revised from CARE A3; (A Three) on the basis of best available information
Long-term/Short-term Bank Facilities	156.00 (156.00)	**CARE BB+; Stable/CARE A4+; ISSUER NOT COOPERATING* (Double B Plus; Outlook: Stable /A Four Plus; ISSUER NOT COOPERATING*)**	Issuer not cooperating; Revised from CARE BBB-; Stable/CARE A3 (Triple B minus; Outlook: Stable/A Three) on the basis of best available information
Total	**325.00 (Rs. Three hundred and twenty five crore only)**		
Instrument			
Medium Term Fixed Deposit	40.00 (40.00)	**CARE BB+ (FD); Stable; ISSUER NOT COOPERATING* [Double B Plus (FD); Outlook: Stable; Issuer not cooperating)**	Issuer not cooperating; Revised from CARE BBB- (FD); Stable [Triple B Minus (FD); Outlook: Stable] on the basis of best available information
Total Facilities & Instrument	**365.00 (Rs. Three Hundred and sixty five crore)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

CARE has been seeking information from Damodar Industries Limited to monitor the rating(s) vide e-mail communications dated from July 20, 2020 to January 12, 2021 & letters dated January 5, 2021 among others and numerous phone calls. However, despite our repeated requests, the company/ has not provided the requisite information for monitoring the ratings. In line with the extant SEBI guidelines, CARE has reviewed the rating on the basis of the best available information which however, in CARE's opinion is not sufficient to arrive at a fair rating. The rating on Damodar Industry Limited's bank facilities and instruments will now be denoted as **CARE BB+/CARE A4+; Stable; ISSUER NOT COOPERATING*** and **CARE BB+ (FD); Stable; Issuer Not Cooperating*.**

Users of this rating (including investors, lenders and the public at large) are hence requested to exercise caution while using the above rating(s).

The ratings to the bank facilities & Fixed deposit of Damodar industries limited (DIL) continues to derive strength from experience of the promoters in textile business and financial support through infusion of unsecured loans, diversified product profile, efficient working capital management and diversified clientele base.

The ratings of DIL is tempered by high gearing levels, decline in profitability (PBILDT) with losses at PAT level for FY20 (audited) & H1FY21, project stabilization risk , susceptibility of margins to raw material price volatility and foreign exchange fluctuation, geographical concentration risk in case of exports and fragmented and cyclical nature of industry.

---

[1] *Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications*

**Issuer did not cooperate; Based on best available information*

Detailed description of the key rating drivers

The ratings have been revised on account of losses at PAT level during year ended March 31, 2020 (Audited) & for the period ended September 30, 2020 along with worsening of debt metrics like gearing for the period ended September 30, 2020.

At the time of last rating on January 8, 2020, the following were the rating strengths and weaknesses (updated for the information available from BSE):

Key Rating Strengths

Experienced promoters & established relations with suppliers & customers

Key Promoters Mr. Arunkumar Biyani, Mr. Ajay Biyani, Mr. Anil Biyani have more than three decades of experience in textile industry. Mr. Arun Kumar Biyani, has 41 years of experience in the Yarn and Fabric Business. He started his career in 1974 as Synthetic Fabrics manufacturer. Since then he is in the business of manufacturing of Cotton Yarns. Presently he looks after the financial matters of the Company. Mr. Ajay D. Biyani has 33 years' experience in the Textile Industry. He is presently in-charge of production and development of new products. Mr. Anil D. Biyani has 31 years of experience in the textile industry. He is presently looking after Marketing of the Company. The promoters are well assisted by a team of qualified and experienced professionals who are actively involved in various functions of the business. The promoters have also supported business through infusion of unsecured loans.

Diversified product profile

Damodar Industries Limited is engaged in the business of manufacturing Cotton and Blended Fancy yarns. The Company has production facilities for Cotton Spinning, Synthetic Spinning, Air Texturizing, Yarn Dyeing, Multi Print Space Dyeing, Mono Filament Polyester Yarns and Textured Twisted Yarns. The company is also involved in trading of yarn. Its manufacturing facilities are located at Dadra, Daman and Amravati (Maharashtra).

Efficient Working Capital Management

DIL's main raw material is cotton. The company's working capital cycle continues to remain well-managed, as indicated by gross current assets of 87 days as at March 31, 2020, mainly on account of receivables of around 43 days and inventory level of 44 days.

Diversified Client

With over three decade of experience DIL has been able to establish relations with diversified clientele base across domestic and exports markets.

Key Rating Weaknesses

High Overall Gearing

DIL's financial risk profile is marked by moderate capital structure and moderate debt coverage ratios. Overall gearing ratio deteriorated to 3.48x as on March 31, 2020 from 3.47x as on March 31, 2019 The same is at 3.63x as on September 30, 2020. Interest coverage remained moderate at 1.35x with total debt to GCA worsening to 28.55x in FY20 vis-à-vis 15.32x during FY19.

Losses during FY20

DIL's TOI reduced by 0.42% during FY20, from Rs..773.74 crore to Rs.770.62 crore. PBILDT level improved during FY20 by 17.40%, from Rs.38.90 crore in FY19 to Rs.45.67 crore in FY20. However, the company made losses at PAT level of Rs.6.94 crore during FY20 vis-à-vis Rs.8.37 profit crore during FY19. PBILDT margins and PAT margins of the company reuced to 5.93% & 0.90% respectively during FY20 vis-à-vis 5.03% & 1.08% during FY19..The decline has been on account of higher interest expenditure. which the company could not pass on. During H1FY20 TOI was Rs.187.90 crore the company reported pre-tax loss of Rs.22.15 crore.

Raw Material Price Volatility

The major raw materials consumed are cotton. Cotton prices are volatile in nature driven by various factors like, area under cultivation, yield for the year, government regulation and pricing, etc. As a result, DIL remains exposed to raw material movement and may have to absorb any adverse fluctuation in raw material prices. However a significant contribution also comes from trading activity where there is minimal raw material risk.

Project Stabilization Risk

Damodar Industries Limited has set up a spinning mill unit at Amravati to strengthen the existing manufacturing base and to increase the capacity of yarn production. The project has a capacity of 78000 Kgs. as against existing capacity of 43000 Kgs. The project was completed at a cost of Rs.196 crores, which is funded by debt equity of 2:1. The company has a two year moratorium for the debt raised for the expansion. The commercial production started in phase wise manner from April 2018 and the plant became fully operational in April 2019. The company has developed large customer base on account of trading activity and it intends to leverage on this to market its products. However, considering the size of the expansion in relation to existing operations the ability of the company successfully stabilise and market its products remains critical from credit perspective.

Foreign Exchange Risk

During FY19, DIL exported goods worth Rs.521.97 crore (F.O.B. value, vis-à-vis Rs.425.74 crore in FY18) whereas it imported raw materials constituting less than 2% of its raw material consumption. Hence DIL is a net exporter. DIL hedges most of its export at the time of booking the order. Ability of the company to successfully manage its foreign exchange exposure remains critical to the credit profile. The forex profit for FY19 was Rs.1.95 crores.

Geographical concentration risk

DIL exports to various countries, however, China & Bangladesh together accounts for over half of the group's exports, thereby exposing it to geographical concentration risk.

Cyclical & Fragmented industry

DIL operates in a highly cyclical, fragmented and commoditized textile yarn industry marked by organised as well as unorganised players. Intense competition in the industry limits the pricing abilities of the players in the industry.

Liquidity: DIL has free cash and cash equivalents amounting to Rs.0.41 crore as on March 31, 2020

Analytical approach: Standalone

Applicable Criteria

Policy in respect of Non-cooperation by issuer
Criteria on assigning Outlook to Credit Rating
Criteria for Short Term Instruments
CARE's default recognition policy
Financial ratios - Non Financial Sector
Rating methodology – Manufacturing companies
Rating Methodology for Cotton Textile Manufacturing

About the Company

Damodar Industries Limited (DIL) was incorporated in 1987 by Mr. Arun Biyani and his brothers Mr. Ajay Biyani and Mr. Anil Biyani. DIL was converted into public limited company on March 20, 1992. DIL is engaged in the business of manufacturing Cotton and Blended Fancy yarns. The Company has production facilities for Cotton Spinning, Synthetic Spinning, Air Texturizing, Yarn Dyeing, Multi Print Space Dyeing Mono Filament Polyester Yarns and Textured Twisted Yarns. The company is also involved in trading of yarn. Its manufacturing facilities are located at Dadra, Daman and Amravati (Maharashtra).

Brief Financials (Rs. crore)	**FY19 (A)**	**FY20 (A)**
Total operating income	773.74	770.62
PBILDT	38.90	45.67
PAT	8.37	-6.94
Overall gearing (times)	3.47	3.48
Interest coverage (times)	2.79	1.35

A: Audited

Status of non-cooperation with previous CRA:

- The ratings of Damodar Industries Limited have been put under Issuer Not Cooperating by CRISIL vide its press release dated December 28, 2020 on account of non-submission of information by issuer/borrower

Any other information: NA

Rating History for last three years: Please refer Annexure-2

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	March 2028	150.50	CARE BB+; Stable; ISSUER NOT COOPERATING*
Fund-based - LT/ ST-Working Capital Limits	-	-	-	156.00	CARE BB+; Stable / CARE A4+; ISSUER NOT COOPERATING*
Non-fund-based - ST-BG/LC	-	-	-	18.50	CARE A4+; ISSUER NOT COOPERATING*
Fixed Deposit	-	-	-	40.00	CARE BB+ (FD); Stable; ISSUER NOT COOPERATING*

**Issuer did not cooperate; Based on best available information*

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Term Loan	LT	150.50	CARE BB+; Stable; ISSUER NOT COOPERATING*	-	1)CARE BBB-; Stable (08-Jan-20) 2)CARE BBB; Stable (13-Aug-19)	-	-
2.	Fixed Deposit	LT	40.00	CARE BB+ (FD); Stable; ISSUER NOT COOPERATING*	-	1)CARE BBB- (FD); Stable (08-Jan-20) 2)CARE BBB (FD); Stable (13-Aug-19)	-	-
3.	Fund-based - LT/ ST-Working Capital Limits	LT/ST	156.00	CARE BB+; Stable / CARE A4+; ISSUER NOT COOPERATING*	-	1)CARE BBB-; Stable / CARE A3 (08-Jan-20) 2)CARE BBB; Stable / CARE A3+ (13-Aug-19)	-	-
4.	Non-fund-based - ST-BG/LC	ST	18.50	CARE A4+; ISSUER NOT COOPERATING*	-	1)CARE A3 (08-Jan-20) 2)CARE A3+ (13-Aug-19)	-	-

**Issuer did not cooperate; Based on best available information*

Annexure-3: Complexity level of various instruments rated for this company

Sr. No.	Name of the Instrument	Complexity Level
1.	Fixed Deposit	Simple
2.	Fund-based - LT-Term Loan	Simple
3.	Fund-based - LT/ ST-Working Capital Limits	Simple
4.	Non-fund-based - ST-BG/LC	Simple

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

Contact us

Media Contact
Mradul Mishra
Contact no. – +91-22-6837 4424
Email ID – mradul.mishra@careratings.com

Analyst Contact
Group Head Name – Soumya Dasgupta
Group Head Contact no.- +91-22-6754 525
Group Head Email ID- Soumya.dasgupta@careratings.com

Business Development Contact
Name: Meenal Sikchi
Contact no. : +91-22-6754 455
Email ID : meenal.sikchi@careratings.com

About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

Disclaimer

CARE's ratings are opinions on the likelihood of timely payment of the obligations under the rated instrument and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE's ratings do not convey suitability or price for the investor. CARE's ratings do not constitute an audit on the rated entity. CARE has based its ratings/outlooks on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments. CARE or its subsidiaries/associates may also have other commercial transactions with the entity. In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is, inter-alia, based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors. CARE is not responsible for any errors and states that it has no financial liability whatsoever to the users of CARE's rating.

Our ratings do not factor in any rating related trigger clauses as per the terms of the facility/instrument, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and if triggered, the ratings may see volatility and sharp downgrades.

****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**