

Damodar Industries Limited

January 08, 2020

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long term Bank Facilities	150.50 (150.50)	CARE BBB-; Stable (Triple B Minus; Outlook: Stable)	Revised from CARE BBB; Stable (Triple B; Outlook: Stable)
Short term Bank Facilities	18.50 (18.50)	CARE A3 (A Three)	Revised from CARE A3 + (A Three Plus)
Long term/Short term Bank Facilities	156.00 (156.00)	CARE BBB-; Stable/CARE A3 (Triple B Minus; Outlook: Stable/A Three)	Revised from CARE BBB; Stable/ CARE A3 (Triple B; Outlook: Stable/ A Three)
Total Facilities	325.00 (Rs. Three hundred and twenty five crore only)		
Instrument			
Medium Term Fixed Deposit	40.00 (40.00)	CARE BBB- (FD); Stable (Triple B Minus(FD); Outlook: Stable)	Revised from CARE BBB (FD); Stable (Triple B(FD); Outlook: Stable)
Total Facilities & Instrument	365.00 (Rs. Three Hundred and sixty five crore)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the ratings assigned to the bank facilities/fixed deposit of Damodar Industries Limited is due to change in analytical approach adopted by CARE Ratings on account of revised criteria adopted by CARE Ratings for rating of debt while taking a combined approach for a group of entities. As per the revised criteria, a listed entity cannot be combined with other listed/non-listed entities to arrive at the ratings for a group of entities/entity on a combined approach & hence they have to be viewed/analysed as a separate entity and not combined with other entities of the group. CARE has analyzed Damodar Industries Limited on a Standalone basis as against earlier combined view of the group companies namely Damodar Industries Limited and Suam Overseas Pvt. Ltd. was considered by CARE due to similar line of business, common promoters and operational synergies.

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 in H1FY20 with losses at PAT level, 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.

Rating Sensitivities

Positive Factors

- Improvement in PBILDT margins to above 8.00% on consistent basis
- Reduction in overall gearing below 2.00x

Negative factors

- Overall gearing deteriorating to above 3.50x on consistent basis

Detailed description of the key rating drivers

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

¹Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications

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 73 days as at March 31, 2019, mainly on account of receivables of around 42 days and inventory level of 31 days. DIL's working capital utilization also remains comfortable at 60% for 12 months ended Sep'19.

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 3.44x as on March 31, 2019 from 2.03x as on March 31, 2018. The same is at 3.57x as on September 30, 2019. Interest coverage and total debt to GCA also remained moderate at 2.79x and 15.32x respectively in FY19. Going forward, the capital structure is expected to improve gradually on account of no plans for additional capex.

Decline in profitability in FY19

DIL's TOI grew by 18.81% during FY19, from Rs.651.25 crore Rs.773.74 crore. PBILDT level improved during FY19 by 6.49%, from Rs.36.53 crore in FY18 to Rs.38.90 crore in FY19. However, there was a decline in PAT level, which was at Rs.11.21 crore in FY18 vis-à-vis Rs.8.37 crore during FY19, a decline of 25.33%. PBILDT margins and PAT margins of the company remained stable at 5-6% and 1-2% respectively during FY19. The decline has been on account of higher cotton prices which the company could not pass on. During H1FY20 on sales of Rs.365 crore the company reported loss of Rs.2.74 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.

Industry outlook

India's cotton yarn export quantity declined by 33 per cent Y-o-Y in Q1 FY2020 and stood at a seven-year low of 59 million kg in June 2019. As a result, multiple textile associations across the country have reported stock pile-ups and production cuts by spinning mills in recent months. As compared to a 50 per cent Y-o-Y decline in cotton yarn exports to China during Q1 FY2020, exports to other markets too declined by around 20 per cent. The pressure is primarily originating from higher cotton prices in the domestic market, which has made Indian yarn manufacturers uncompetitive in the international markets. De-growth in volumes due to lower export demand and a sharper decline in realizations vis-a-vis cotton prices because of higher minimum support price (MSP) has resulted in decline in turnover as well as pressure on operating profitability of domestic cotton spinners.

Liquidity: Adequate- The Company has operating cycle of 43 days in FY19. The company's working capital limits are utilized only 60.4% in 12 months ended Sep-19. The company has repayment obligation of Rs.10.40 crore in FY20. The company does not have any capex plans. The promoters have infused unsecured loans worth Rs.15.00 crore during H1FY20.

Analytical approach: Standalone (Approach changed from combined).

CARE took a combined view of Damodar Industries limited and Suam Overseas Pvt. Ltd. on account of similar line of business, common promoters and operational synergies. Now, CARE has changed its analytical approach to Standalone basis on account of revised criteria adopted by CARE Ratings for rating of debt while taking a combined approach for a group of entities.

Applicable Criteria

[Criteria on assigning 'Outlook' and 'credit watch' to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Criteria for Short Term Instruments](#)

[Rating Methodology for Cotton Textile Manufacturing](#)

[Rating Methodology- Manufacturing Companies](#)

[Financial ratios – Non-Financial Sector](#)

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)	FY18 (A)	FY19 (A)
Total operating income	651.25	773.74
PBILDT	36.53	38.90
PAT	11.21	8.37
Overall gearing (times)	2.03	3.44
Interest coverage (times)	3.33	2.79

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 November 22, 2019, on account of non-submission of information by issuer/borrower

Any other information: Not Available

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 BBB-; Stable
Fund-based - LT/ ST-Working Capital Limits	-	-	-	156.00	CARE BBB-; Stable / CARE A3
Non-fund-based - ST-BG/LC	-	-	-	18.50	CARE A3
Fixed Deposit	-	-	-	40.00	CARE BBB- (FD); Stable

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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - LT-Term Loan	LT	22.32	Suspended	-	-	-	1)Suspended (24-Nov-16)
2.	Fund-based-Long Term	LT	84.00	Suspended	-	-	-	1)Suspended (24-Nov-16)
3.	Non-fund-based - ST-BG/LC	ST	6.00	Suspended	-	-	-	1)Suspended (24-Nov-16)
4.	Fixed Deposit	LT	15.00	Suspended	-	-	-	1)Suspended (24-Nov-16)
5.	Fund-based - LT-Term Loan	LT	150.50	CARE BBB-; Stable	1)CARE BBB; Stable (13-Aug-19)	-	-	-
6.	Fixed Deposit	LT	40.00	CARE BBB- (FD); Stable	1)CARE BBB (FD); Stable (13-Aug-19)	-	-	-
7.	Fund-based - LT/ ST-Working Capital Limits	LT/ST	156.00	CARE BBB-; Stable / CARE A3	1)CARE BBB; Stable / CARE A3+ (13-Aug-19)	-	-	-
8.	Non-fund-based - ST-BG/LC	ST	18.50	CARE A3	1)CARE A3+ (13-Aug-19)	-	-	-

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.

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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.

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