

Damodar Industries Limited

August 13, 2019

Ratings

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

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to Damodar group derives strength from experience of the promoters in textile business, diversified product profile, efficient working capital management and diversified clientele base.

The ratings of Damodar group is tempered by high gearing levels, project stabilization and marketing 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.

The entity's ability to achieve envisaged capacity utilization from increased capacities, and improve its margins are key rating sensitivities.

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 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

Diversified product profile

Damodar Group is primarily engaged in the manufacturing of Cotton/Polyester/Polyester blended value added yarn. It specializes in manufacturing of linen like yarns, silk like yarns, slub yarns, 100% cotton, 100% polyester, poly/viscose yarns and other value added yarns. The group's wide range of product mix helps it to be as one of the preferred suppliers of value added fancy yarns.

Efficient Working Capital Management:

The group's main raw material is cotton and polyester fiber. The group procures polyester fiber mainly against cash and gets credit for purchase of cotton for 10-15 days. The group's working capital cycle continues to remain well-managed, as indicated by gross current assets of 81 days as at March 31, 2019, mainly on account of receivables of around 41 days and inventory level of 40 days. DIL's working capital utilization also remains comfortable at 54.79% for 12 months ended May 19.

Diversified Client:

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

Key Rating Weaknesses**High Overall Gearing**

Damodar group's financial risk profile is marked by moderate capital structure and moderate debt coverage ratios. Overall gearing ratio on a combined basis deteriorated to 2.66x as on March 31, 2019 from 1.78x as on March 31, 2018. Interest coverage and total debt to GCA also remained moderate at 3.26x and 9.82x respectively in FY19. Going forward, the capital structure is expected to improve gradually on account of no plans for additional capex, repayment of debt obligations & accretion to reserves.

Decline in profitability in FY19

Damodar group's TOI grew at a CAGR of 2.97% in the last three years (FY17-FY19) PBILDT margins and PAT margins of the group remained stable at 7-8% and 2-2.5% respectively during FY16-FY18. However in FY19, the PBILDT margins declined on account of increase in raw material cost which the company has not been able to pass on to customers.

Raw Material Price Volatility:

The major raw materials consumed are cotton followed by polyester/man-made yarn. Cotton prices are volatile in nature driven by various factors like, area under cultivation, yield for the year, government regulation and pricing, etc. On the other hand, polyester being a derivative of crude oil is continuously affected by movement in crude oil prices. As a result Damodar group remains exposed to raw material movement and may have to absorb any adverse fluctuation in raw material prices. However the risk is mitigated to certain extent as its raw material mix comprises of both polyester and cotton. Further 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, Damodar group exported goods worth 521.97 crore during FY19 (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 the year was Rs.1.95 crores.

Geographical concentration risk:

The group 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:

Damodar group 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:

Cotton yarn demand in India remained sluggish during the FY19 at 2,933 million kgs registering a decline of about 1.4% y-o-y after increasing by about 3.9% during the same period last year. However, export demand witnessed a strong double-digit growth of 14.7% y-o-y and stood at 1,261 million kgs after declining by about 8.8% during FY18. China and Bangladesh together account for about 55% of India's total cotton yarn exports followed by Pakistan, Egypt and Vietnam that account for 5%, 4.5% and 3.5% respectively as of FY19. The overall domestic textiles industry is on the path of revival with the effects of goods and services tax (GST) implementation in July 2017 now fading. In FY19, on back of higher crude oil prices (21.5% higher y-o-y); demand for MMF witnessed marginal slowdown. Going forward, in FY20, despite high cotton prices and subdued domestic demand, yarn production is expected to witness an increase of about 3-5% from current levels and reach 4,300 – 4,400 million kgs.

Liquidity analysis:

The current ratio and quick ratio of the group stood moderate at 1.23x and 0.71x respectively, as on March 31, 2019. The group's operating cycle remained stable at 73 days in FY19. The group's cash flow from operations continues to remain

positive in FY19. DIL's and SOPL's working capital utilization has been comfortable at 54.79% and 62.82% for 12 months ending May '19.

Analytical approach: Combined. CARE has combined the business and financial risk profile of Damodar Industries Limited (DIL) and Suam Overseas Pvt. Ltd. (SOPL) collectively called as Damodar Group, as these entities are engaged in similar line of business, have common promoters and operational synergies.

Applicable Criteria

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

[Criteria on assigning Outlook to Credit Ratings](#)

[Rating Methodology - Cotton Yarn](#)

[Criteria for Short Term Instruments](#)

[CARE's methodology for Manufacturing Companies](#)

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

[Rating Methodology: Factoring Linkages in Ratings](#)

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)	1.63	3.04
Interest coverage (times)	3.33	2.79

A: Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Available

Rating History for last three years: Not Applicable

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

Annexure 3- List of companies combined

S. No.	Name of Companies
1	Damodar Industries Limited
2	Suam Overseas Private Limited

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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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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