

Divya Textile Industries

May 03, 2019

Rating

Facilities	Amount (Rs. crore)	Ratings	Rating Action
Long- term Bank Facilities	13.18	CARE B+; Stable (Single B Plus; Outlook: Stable)	Assigned
Total	13.18 (Rupees Thirteen crore and Eighteen Lakh only)		

Details of instruments/facilities in Annexure -1

Detailed Rationale & Key Rating Drivers

The rating assigned to the bank facilities of Divya Textile Industries is constrained on account of implementation and stabilization risk associated with its on-going debt-funded capex for setting up manufacturing facility for Grey Fabrics. The rating is further constrained on account of its presence in a highly competitive and fragmented textile industry along with susceptibility of operating margins to volatility in raw material prices.

The rating, however, derives strength from experienced promoter in textile industry with accessibility of existing selling and distribution network of the group companies, location advantages and fiscal benefits.

DTI's ability to stabilize its operations by commencing commercial production within envisaged time and cost parameters and achieving envisaged level of sales and profitability would be key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Weaknesses

Implementation and stabilization risk associated with on-going debt-funded capex

DTI is implementing project of manufacturing grey fabric at a total cost of Rs.17.21 crore, proposed to be funded through debt/equity mix of 4.68 times with and envisaging commencement of commercial operation from June 2019 onwards. Till March 28, 2019, the firm has incurred 11.62% of the envisaged project cost funded through promoters' capital. As majority of cost is yet to be incurred, project implementation risk in terms of timely completion of the project within envisaged cost parameters persists. Further, stabilization risk in terms of achieving envisaged sales volume and realization is also critical for the firm. However, availability of existing marketing and distribution network of group mitigates this risk to a certain extent.

Presence in the highly competitive and fragmented textile industry

DTI operates in textile industry, which is highly competitive and fragmented industry marked by presence of large number of independent and small scale unorganized players leading to high competition among industry players. The smaller companies with limited presence in textile value chain are more vulnerable to intense competition and have limited pricing flexibility, which constrains their profitability.

Susceptibility of operating margins to volatility in raw material costs

Major Raw Material for DTI is Polyester Yarn. The prices of raw materials move in tandem with international prices, which in turn have positive correlation with the prices of petrochemical products. Prices of raw material i.e. Polyester Yarn are primarily dependent on prices of crude oil which are volatile in nature. Considering the highly fragmented nature of textile industry and limited bargaining power with the customers and suppliers; any adverse volatility in the raw material prices may hamper the firm's margins.

Key Rating Strengths

Experienced promoter with access to existing selling and distribution network of the group companies

The key promoter, Mr. Sushilkumar Fatehpuria, has more than three decades of experience in textile industry and having Directorship in M/s. Divya Fashion Private Limited (DFPL) since last 10 years. DFPL is engaged in manufacturing of Sarees. DFPL is based at Surat and having around 200-250 wholesale customer base at Andhra Pradesh and Telangana. DTI will benefit from the customer base and distribution channel established by DFPL.

Fiscal Benefits receivables

DTI is eligible to receive various fiscal benefits from state government i.e. capital subsidy 25% for under Subsidy schemes introduced by Government of Telangana to promote Textile Manufacturing and 8% Interest subsidy from State government.

Location advantage by way of presence in textile hub

DTI plant is located in Telangana which is considered to be one of the emerging textile hubs in India. The presence in textile hub provides additional advantage of easy market availability for its product to DTI along with lower logistic expenditure (both on the transportation and storage). It enjoys good road, rail and air connectivity leading to better lead time and facilitating delivery of finished products in a timely manner.

Analytical approach: Standalone

Applicable Criteria

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

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

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

[Rating Methodology-Manufacturing Companies](#)

About the Company

Surat (Gujarat) based Divya Textile Industries (DTI) was established in February, 2019 as a Proprietorship Firm by Mr. Sushil Fatehpuria to undertake a project for manufacturing of Grey Fabric. DTI is setting up a plant in Telangana with a proposed installed capacity of 21.84 lakh meters of grey fabric per annum having total cost of Rs.17.21 crore proposed to be funded through debt/equity mix of 4.68 times. DTI is envisaging to commence commercial operations from June 2019 onwards.

Mr. Sushilkumar Fatehpuria is director in Divya Fashion Private Limited (DFPL, engaged in Manufacturing of Ladies wear Sarees) since last 10 years. DTI is planning to Target the existing customer base of DFPL mainly wholeseller located in Hyderabad, Andhra Pradesh and Telangana region. The key raw material i.e. polyester yarn will be procured entirely from domestic market (mainly Surat).

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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

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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In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is 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.

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,2026	11.78	CARE B+; Stable
Fund-based - LT-Cash Credit	-	-	-	1.40	CARE B+; 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	11.78	CARE B+; Stable	-	-	-	-
2.	Fund-based - LT-Cash Credit	LT	1.40	CARE B+; Stable	-	-	-	-

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