

September 17, 2024

Dharmesh Textiles Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Outstanding
Long-term – Fund-based – Cash Credit	9.00	9.30	[ICRA]A-(Stable); reaffirmed
Long-term – Fund-based – Term Loan	0.70	0.40	[ICRA]A-(Stable); reaffirmed
Short-term – Non-fund based	0.30	0.30	[ICRA]A2+; reaffirmed
Total	10.00	10.00	

*Instrument details are provided in Annexure-I

Rationale

The ratings continue to derive comfort from Dharmesh Textiles Limited’s (DTL) healthy financial profile, marked by a conservative capital structure and strong debt coverage indicators, led by low debt levels and healthy cash flows. Besides, the liquidity position of the company remains adequate, marked by low utilisation of working capital limits. Extensive experience of DTL’s promoters, its established track record in non-woven carpet manufacturing, healthy relationships with customers and backward integrated operations would continue to support the ratings.

The ratings are, however, constrained by DTL’s modest scale of operations and moderate profit margins due to its stiff competition from cheaper Chinese imports and local players, which limits its pricing flexibility and bargaining power with customers. The same is reflected in the lower operating margin of 7-9% in the past three years (during FY2022 to FY2024) compared to an average operating profit of 11.0-12.0% in the previous years. Nonetheless, addition of new products in the recent years and planned increase in capacity of the existing products would support the company in diversifying its operations and increasing its revenue base. The company is incurring a large capital expenditure (capex) of Rs. 80 crore towards planned capacity expansion related to polyester staple fibre (PSF) and non-woven carpets and is expected to fund the same with a prudent mix of debt and internal accruals. Larger-than-expected reliance on debt would be a key monitorable. The working capital intensity of the company remains on the higher side as DTL maintains adequate inventory in the form of raw materials and finished goods for smooth execution of its production process and to meet the immediate demand of its customers.

The Stable outlook on the long-term rating of [ICRA]A- reflects ICRA’s opinion that the credit profile of the company is expected to remain adequately supported by steady cash flows and healthy liquidity position, which will help limit dependence on debt. The company would continue to register a steady growth in its revenues, backed by an experienced management team and an established presence in the non-woven carpet business.

Key rating drivers and their description

Credit strengths

Extensive experience of promoters – The promoters of the company have been involved in the manufacturing of non-woven carpet and PSF for more than two decades. The company has developed a long track record of business and has a strong relationship with its customers and suppliers, which supported its business growth over the years.

Comfortable capital structure and healthy debt protection metrics – The company’s reliance on external debt has remained limited. The company utilises its internal accruals and available cash and liquid balances before tapping its bank limits. DTL’s capital structure remained comfortable with healthy accruals and no major long-term loans as on March 31, 2024 (provisional). The company’s interest coverage ratio and DSCR stood at 46.2 times and 17.4 times, respectively as on March 31, 2024 (provisional estimates). With a conservative debt profile, the company’s debt protection metrics are likely to remain healthy

in the near term. The company is in the process of increasing capacities of the existing products at a capex of Rs. 80 crore. This is expected to be funded by a mix of term loans and internal accruals.

Benefits derived from backward integrated operations – Benefits of backward integration in terms of PSF manufacturing ensures easy availability of raw materials, better quality control, absence of transportation costs and other operational efficiencies.

Credit challenges

Modest scale and moderate profit margins – The scale of operations of DTL remains modest, with revenues of Rs. 343 crore in FY2024 (as per provisional estimates). The operating profit margin of the company has remained at a moderate level of 7-9% in the past three years compared to the average operating profit of 11.0-12.0% in the previous years. Apart from competition and low entry barriers, low value addition in producing non-woven carpets limits the company's profitability to a large extent.

High working capital intensity, albeit improvement in past two fiscals – The company is required to maintain adequate inventory in the form of raw materials and finished goods for smooth production process and to meet the immediate demand of its customers, which increases the inventory cycle. Owing to intense competition in the industry, the company has low bargaining power and allows a credit period of two to three months to its customers due to which DTL's working capital intensity (depicted by the ratio of net working capital and operating income) remained high at 22% albeit an improvement in past two years. Further, a comfortable credit period available from creditors and low reliance on working capital limits provide some comfort.

Exposed to intense competition – The Indian carpet industry is characterised by numerous small players and is concentrated in the northern part of India, which contributes a significant portion to India's total carpet production. Besides, low entry barriers and less capital-intensive nature of the carpet industry make it highly lucrative and thus competitive. DTL faces stiff competition from cheaper Chinese imports and local players in a highly fragmented industry with many small players, which limits its pricing flexibility and bargaining power with customers, putting pressure on its margins.

Liquidity position: Adequate

DTL's liquidity position remains adequate, supported by steady cash flows, free cash and liquid investments of ~Rs. 4 crore and sufficient cushion of Rs. 25 crore as of July 31, 2024 in the form of undrawn bank lines. The average utilisation of working capital limits has remained low at 16% in the past 14 months ended in July 2024. Besides, the debt repayment liability (around Rs. 6-9 crore annually depending on drawdown amount) regarding the new capex is expected to be met comfortably with cash flows, going forward. The ongoing capex of Rs. 80 crore is expected to be funded by mix of term loans and internal accruals. The company has a sanctioned term loan of Rs. 45 crore for the new capex but may draw a lower amount owing to healthy cash generation. The company has already incurred Rs. 30 crore towards the said capex, which is expected to be completed by March 2025.

Rating sensitivities

Positive factors – ICRA could upgrade DTL's ratings if there is a significant growth in revenues and profitability, along with an improvement in the liquidity position on a sustained basis.

Negative factors – Pressure on DTL's ratings could arise if there is a sharp decline in its revenues and profitability, resulting in lower cash flows and weakening of debt coverage metrics on a sustained basis. Any significant stretch in the working capital cycle, impacting the company's liquidity position, could also be a trigger for ratings downgrade. Specific credit metric that could result in ratings downgrade include an increase in Total Debt/ OPBDITA above 2.0 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Not applicable
Consolidation/Standalone	The ratings are based on the standalone financials of the company.

About the company

Dharmesh Textiles Limited (DTL) manufactures non-woven carpets and recycled polyester staple fibre at its manufacturing facility in Bhiwani (Haryana). It has an annual installed manufacturing capacity of 420 lakh square metres of non-woven carpets and 24,000 metric tonnes of recycled polyester staple fibre as of May 31, 2024. The company sells its non-woven carpets under the Sundaram brand in varieties including plain, ribs, jacquard, velour, coated and non-coated etc. The carpets manufactured by the company are used in exhibitions, hotels, tent houses, public events, large gatherings etc. DTL had also set up a carpet tiles manufacturing unit along with a noodle carpet cushion mat and digital printed carpet in its existing factory from FY2022. Further, the company is generating additional revenue from the newly introduced artificial grass carpets.

Key financial indicators

DTL	FY2023(Audited)	FY2024 (Provisional)
Operating income	326.7	343.3
PAT	14.4	18.0
OPBDIT/OI	7.8%	8.8%
PAT/OI	4.4%	5.3%
Total outside liabilities/Tangible net worth (times)	0.4	0.4
Total debt/OPBDIT (times)	0.2	0.3
Interest coverage (times)	25.9	46.2

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs. crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Current Rating (FY2025)			Chronology of Rating History for the past 3 years			
	Type	Amount Rated (Rs. crore)	Date and Rating in September 17, 2024	Date & Rating			
				FY2024	FY2023	FY2022	
				Jan 31, 2024	July 17, 2023	May 18, 2022	Jul 09, 2021
1 Fund Based – Cash Credit	Long-term	9.30	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]BBB+(Stable)	[ICRA]BBB+(Stable)
2 Fund Based – Term Loan	Long-term	0.40	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]BBB+(Stable)	[ICRA]BBB+(Stable)
3 Non-fund based	Short-term	0.30	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	[ICRA]A2	[ICRA]A2

4	Unallocated	Long-term	-	-	-	[ICRA]A-(Stable)	[ICRA]BBB+(Stable)	[ICRA]BBB+(Stable)
5	Non-fund based - Letter of Credit/ILC/FLC including Buyer Credit	Short-term	-	-	-	-	[ICRA]A2	[ICRA]A2

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long Term – Fund Based – Cash Credit	Simple
Long Term – Fund Based – Term Loans	Simple
Short Term – Non-fund based	Very Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: [Click Here](#)

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Long Term – Fund Based – Cash Credit	NA	NA	NA	9.30	[ICRA]A-(Stable)
NA	Long Term – Fund Based – Term Loan – II	FY2023	~8.60% p.a.	FY2028	0.40	[ICRA]A-(Stable)
NA	Short Term – Non-fund based	NA	NA	NA	0.30	[ICRA]A2+

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure II: List of entities considered for consolidated analysis: Not Applicable

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