

Dixcy Textiles Pvt. Ltd.

November 14, 2017

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
LT/ST: Fund based facilities	50.00	50.00	[ICRA]A (positive) / [ICRA] A1; upgraded from [ICRA] A- (stable) / [ICRA] A2+
Total	50.00	50.00	

Rating action

ICRA has upgraded the long -term rating from [ICRA]A - (pronounced ICRA A minus) to [ICRA]A (pronounced ICRA A) and the short term rating from [ICRA] A2+ (pronounced ICRA A two plus) to [ICRA] A1 (pronounced ICRA A one) to the Rs. 50.00 crore¹ fund based facilities of Dixcy Textiles private limited (Dixcy/ company)². The outlook on the long-term rating is 'Positive'.

Rationale

The upgrade in ratings reflects the consistent improvement in the operational and financial profile of the company, illustrated by growth in revenue, profitability and debt protection metrics in FY2017. The company witnessed robust growth in revenue in FY2017 and H1FY2018 due to penetration in the mid-premium inner-wear market. The ratings also continue to favorably factor in the established presence of the company's flagship brands –'dixcy' and 'scott' in the domestic market, aided by its focused marketing initiatives and significant experience of the promoters in the business for more than three decades. The company has strong pan India distribution network and robust presence across diverse geographies. Further, ICRA takes note of the adoption of GST tax structure as positive to the industry. ICRA also takes note of proposed part-equity sale to a private equity firm enabling the company to have higher operational flexibility and strengthened corporate governance practices in the longer term.

However, the ratings continue to be constrained by the fragmented domestic inner wear market characterized by increasing competition from both organized and un-organized players, resulting in limited room for price flexibility. The operating profitability margins continue to remain modest at 9%, despite the marginal improvement in FY2017, due to the increasing competition, volatility in raw material prices and increasing selling expenditure. The ratings also factor into account the company's high working capital intensity due to high inventory requirement. The high working capital requirement has resulted in a moderate capital structure with gearing (as characterised by Total Debt / Tangible Net Worth) of 0.8 times as on March 31, 2017. However, as seen in the past, ICRA expects the gearing to improve amidst growth in top-line and profitability metrics.

¹ 100 lakh = 1 crore = 10 million

² For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications

Outlook: Positive

The business risk profile of Dixcy is expected to improve over the medium term with scaling up of its operations supported by its established market position in the mid-premium segment and continuing branding efforts. The ratings could be upgraded, going forward, if the company is able to achieve this scaling up in line with ICRA's expectations, while sustaining the profitability and working capital intensity, thereby improving the capital structure and debt protection indicators. Conversely, the outlook may be revised to stable in case of any deterioration in the market share of the company; or adverse movement in profitability margins, working capital management, or any large debt funded capex affecting the debt protection indicators.

Key rating drivers

Credit strengths

Established brand presence across innerwear segments with majority revenues from mid premium segment - Dixcy has established a brand presence in various segments including economy, mid-premium and premium segments, however the company generates the majority of revenues from the mid-premium segment. The company caters to various segments under various brand names including Josh, Dixcy, Scott, uno sport and Slimz.

Diversified revenue base, supported by strong pan-India distribution network - Dixcy is geographically diversified across the domestic market higher concentration in the western and northern region, also the companies penetration in the southern region in increased in FY 2017. The diversified customer base is well supported by 900+ distribution channel across India.

Improving scale of operations aided by an increase in focus in mid premium segment – The operating income grew by 28.7% in FY 2017 primarily on account of further penetration in the mid-premium segment. The penetration in FY2017 was well supported by the company's advertisement strategy of the company of bringing in reputed brand ambassadors across geographies.

Improvement in financial profile characterized comfortable debt-protection metrics – The operating margins increased to 9.1% from 8.2% in FY2017 primarily on account of increase in realisations. Further, the reduction in the working capital debt levels helped the company to reduce the interest cost in FY2017. This coupled with improved margins resulted in strong debt-protection metrics, interest coverage ratio improving to 7.6 times in FY2017 from 3.6 in FY2016.

Asset light model of operation resulting in scalable business model – Dixcy outsources substantial part of the manufacturing process to job workers enabling the company to scale-up the business with lesser capital expenditure and also mitigate labour related issues to an extent.

Credit weaknesses

Intense competition in the fragmented industry limits price flexibility – The industry is fragmented into the economy, med-premium and premium segment with several players posing intense competition in economy and mid-premium segment, limiting room for price flexibility. However, the company was able to improve the realization and top-line despite the intense competition in these segments.

Operating margins are susceptible to fluctuation in raw material price and increasing selling expense – The raw material price constitute 45% to 50% operating income. With the price pass-through depending on the market competition, the margins are susceptible to fluctuation in raw material prices. The other key expense for Dixcy - selling expenses - increased to ~18% of the operating income in FY2017 from 16% in FY2016. The company incurs heavy Expenditure on business promotion, sales commission and discount for higher penetration, though it helps in upscale of business, it affects the operating margins of the company.

High working capital intensity results from high inventory and debtor levels – Though the reliance on working capital borrowing has gradually reduced in FY2016 and FY2017, the working capital intensity continues to be stretched at 24% as for March 31, 2017, characterized by high inventory and debtor levels. The high working capital is required to support inventory requirement across the distributor base. High inventory requirement also arises from relatively longer manufacturing lead-time as the majority of the process is being outsourced.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria:

[Corporate Credit Rating Methodology](#)

About the company:

Dixcy Textiles Private Limited is primarily engaged in making innerwear garments for men, women and kids, which contributes approximately 90% to the overall revenues. The Company also makes casual wear, night wear and thermo / winter wear. The company's products are sold in the domestic market under the brand names "Dixcy", "Josh", "Scott" and "UNO". The company is a closely held family business with entire shareholding with Mr. Prem Prakash Sikka, Managing Director and his family.

In FY2017, the company reported a net profit of Rs. 39.7 crore on an operating income of Rs. 731.9 crore, as compared to a net profit of Rs. 20.4 crore on an operating income of Rs. 568.8 crore in the previous year.

Key Financial Indicators (Audited)

	FY 2016	FY 2017
Operating Income (Rs. crore)	568.8	731.9
PAT (Rs. crore)	20.4	39.7
OPBDIT/ OI (%)	8.5%	28.7%
RoCE (%)	17.2%	26.9%
Total Debt/ TNW (times)	0.9	0.8
Total Debt/ OPBDIT (times)	2.2	1.9
Interest coverage (times)	3.6	7.6
NWC/ OI (%)	22.4%	24.3%

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

		Current Rating (FY2018)			Chronology of Rating History for the past 3 years		
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Date & Rating November 2017	Date & Rating in FY2016	Date & Rating in FY2013	Date & Rating in FY2012
1	CC/PC	50.00*	100.36	[ICRA] A (positive) / [ICRA] A1	[ICRA] A- (stable) / [ICRA] A2+	[ICRA] BB+ (stable) / [ICRA] A4+	[ICRA] BB+ (stable) / [ICRA] A4+

*ICRA has rated portion of the total borrowings of Dixcy textiles private limited; accordingly the amount outstanding was greater than the amount rated by ICRA

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
	CC/PC	NA	NA	NA	50.00	[ICRA] A (positive) / [ICRA] A1

Source: Dixcy textiles private Limited.

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