

March 01, 2018

Shri Damodar Yarn Manufacturing Private Limited

Summary of rated instruments

Instrument [^]	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund based limits	26.20	23.86	[ICRA]BBB-(Stable)/[ICRA]A3; Re-affirmed
Unallocated limit	1.25	-	-
Non-Fund based limit	8.80	7.50	[ICRA]A3; Re-affirmed
Non-Fund based limits*	(13.00)	(10.00)	[ICRA]A3; Re-affirmed
Total	36.25	31.36	

* Sub-limit

[^]Instrument details are provided in Annexure-1

Rating action

ICRA has reaffirmed the long-term rating of [ICRA]BBB- (pronounced ICRA triple B minus) and the short-term rating of [ICRA]A3 (pronounced ICRA A three) assigned to the ₹ 31.36-crore¹ (reduced from ₹ 36.25 crore) bank limits of Shri Damodar Yarn Manufacturing Private Limited ('DYMPL' or 'the company')². The outlook on the long-term rating is 'Stable'.

Rationale

The ratings reaffirmation continues to take into consideration the extensive experience of the promoters in the yarn manufacturing and processing business, which has facilitated long-term relationship with its reputed and diversified clientele. The company caters to the speciality yarn segment and enjoys well-integrated and primarily in-house operations with presence in yarn processing activities. This entails higher value addition and customisation thereby better profitability than regular yarn processing activities.

ICRA also notes the moderate liquidity profile, which restricts reliance on external working capital borrowings, thereby limiting leverage of the overall capital structure. The company has also been generating positive fund flow from operations over the years.

However, the ratings continue to be constrained by DYMPL's presence in a fragmented industry, which results in intense competition restricting its pricing flexibility. The ratings also consider the decline in profitability over the years, the sharp fall in revenue in FY2017 and the limited revenue booked till December 31, 2017. The ratings are further constrained by the susceptibility of the company's profitability to the fluctuating raw material prices.

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: Stable

ICRA believes DYMPPL will continue to benefit from the extensive experience of its promoters in the textile industry. The outlook may be revised to Positive if the company reports substantial growth in scale of operations and profitability on a consistent basis, which would strengthen the financial risk profile. The outlook may be revised to 'Negative', if there is further de-growth in its revenue, or any stretch in working capital cycle or high borrowings weakening the capital structure of the company.

Key rating drivers**Credit strengths**

- **Extensive experience of the promoters with operational backing from group concern in terms of raw material procurement**—DYMPPL was incorporated in 1983 and is headed by Mr. Arvind Biyani, whose total experience in the textile industry is more than three decades. It reduced its import of linen yarn in H1 FY2017 and started procuring linen yarn from its group company, Golden Fibres LLP ('GFL') from September, 2016; majority of the demand of linen yarn of DYMPPL is met by GFL. This has benefited DYMPPL in terms of import charges.
- **Well integrated operations; presence in speciality and customised yarns segment entails relatively better margins than regular yarns** - DYMPPL is involved in yarn processing, which involves twisting, binding and dyeing of yarn. The speciality yarns are manufactured based on the customers' specifications, which helps in fetching better margins than regular texturised yarns. These yarns are used mainly for designing shirts/suits/trousers.
- **Moderate liquidity profile limiting reliance on external working capital borrowings and leverage of the capital structure with positive fund flow from operations** - The company has a moderate liquidity profile with its working capital intensity at 24% in FY2017. This is reflected in the average working capital utilisation from January, 2017, to December, 2017, which remained moderate as a percentage of sanctioned limits at 45%. Also, the capital structure is comfortable with the gearing at 0.95 times as on March 31, 2017. The fund flow from operations has remained positive over the last five years.

Credit challenges

- **Intense competition from organised and unorganised players limits pricing flexibility in the fragmented industry** - DYMPPL faces competition from other players in yarn processing and dyeing, located in Gujarat. The profitability remains susceptible to the intense competition prevailing in the market, given the fragmented nature of the industry.
- **Decline in operating profitability and sharp drop in revenue in FY2017; slow sales momentum till December 2017**—The operating profitability dropped from 9.05% in FY2015 to 6.40% in FY2016 and further to 6.04% in FY2017. The drop in profitability was primarily due to a decline in realisation because of sluggish market conditions, which was further accentuated because of demonetisation drive by the Government of India.

In FY2017, DYMPPL recorded an operating income (OI) of ₹ 113.50 crore, an year-on-year de-growth of 23% as compared to ₹ 148.28 crore in FY2016, driven by decrease in quantum of yarn sold in FY2017. The decline in sales was also due to lack of demand in the textile industry, due to demonetisation. Till December 31, 2017, the company has registered an OI of ₹ 85.43 crore.

- **Susceptibility of margins to fluctuation in prices of major raw materials** - The profitability is also susceptible to fluctuations in raw material prices and with raw material consumption contributing between 55-60% to the total cost of manufacturing in the last three years, any price fluctuations are likely to impact the profit margins.

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

Links to applicable criteria:

[Corporate Credit Rating – A Note on Methodology](#)

About the company:

Incorporated in 1983, Shri Damodar Yarn Manufacturing Private Limited is a part of the Shri Damodar Group. The company procures major raw materials such as polyester, cotton and linen yarn before blending, twisting and dyeing them. These yarns are used mainly for designing suitings and shirtings. The products are sold under the brand name ‘Shri Damodar’. DYMPPL has its registered office in Mumbai and its manufacturing unit is at Sarigam (Gujarat). The facility is equipped with various blending, twisting and dyeing machines that can process ~17600 kg per day.

DYMPPL has two group concerns, Monopoly Yarns Private Limited involved in manufacturing polyester filament yarn and 20D mono polyester filament yarn, and Golden Fibres LLP (rated [ICRA]BB-(Stable)/[ICRA]A4), which manufactures linen yarn.

DYMPPL recorded a profit after tax of ₹ 0.23 crore on an OI of ₹ 113.50 crore for the year ending on March 31, 2017 and a pre-tax profit of ₹ 2.23 crore on an OI of ₹ 85.43 crore for the nine months ending on December 31, 2017 (provisional numbers).

Key financial indicators:

	FY2016	FY2017
	Audited	Audited
Operating Income (₹ crore)	148.28	113.50
PAT (₹ crore)	3.90	0.23
OPBDITA/ OI (%)	6.40%	6.04%
RoCE (%)	14.18%	5.44%
Total Debt/ TNW (times)	0.88	0.95
Total Debt/ OPBDITA (times)	2.60	3.89
Interest Coverage (times)	3.87	3.63
NWC/ OI (%)	15%	24%

OPBDITA: Operating Profit before Depreciation, Interest, Taxes and Amortisation; PAT: Profit after Tax;

NWC: Net Working Capital; RoCE: Return on Capital employed; TNW: Tangible Net Worth

Source: Financial statements of DYMPPL and ICRA research

Status of non-co-operation with previous CRA: Not applicable

Any other information: Not applicable

**Rating history for the last three years:
Table:**

S. No.	Name of Instrument	Current rating (FY2018)				Chronology of rating history for the past three years				
		Type	Rated Amount (₹ crore)	Outstanding Amount (₹ crore)	Month-year & Rating in FY2018	Month- year & Rating in FY2017			Month-year & Rating in FY2016	Month-year & Rating in FY2015
					March 2018	March 2017	May 2016	April 2016	-	November 2014
1	Cash Credit	Long-term	21.00		[ICRA]BBB- (Stable)/ [ICRA]A3	[ICRA]BBB- (Stable)/ [ICRA]A3	[ICRA]BBB- (Stable)/ [ICRA]A3	[ICRA]BBB- (Stable)/ [ICRA]A3	-	[ICRA]BBB- (Stable)/ [ICRA]A3
2	Term Loans	Long-term	2.86	2.86	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	-	[ICRA]BBB- (Stable)
3	Foreign Letter of Credit	Short-term	7.50		[ICRA]A3	[ICRA]A3	[ICRA]A3	[ICRA]A3	-	[ICRA]A3
4	Packing Credit in Foreign Currenc	Short-term	(5.00)		[ICRA]A3	[ICRA]A3	[ICRA]A3	[ICRA]A3	-	[ICRA]A3
5	FOUBN LC/ FOBNLC*	Short-term	(5.00)		[ICRA]A3	[ICRA]A3	[ICRA]A3	[ICRA]A3	-	[ICRA]A3

*Sub-limit of Cash Credit

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

Name of the Instrument	Date of Issuance/ Sanction	Coupon Rate	Maturity Date	Amount rated (₹ crore)	Current Rating and Outlook
Cash Credit	-	9.70%	-	21.00	[ICRA]BBB-(Stable)/ [ICRA]A3
Term Loan	March 2012	10.00%	July 2018	1.16	[ICRA]BBB-(Stable)
Term Loan	March 2013	10.00%	September 2019	0.41	[ICRA]BBB-(Stable)
Term Loan	February 2014	10.00%	September 2020	0.69	[ICRA]BBB-(Stable)
Term Loan	March 2012	10.00%	July 2018	0.60	[ICRA]BBB-(Stable)
Foreign Letter of Credit	-	-	-	7.50	[ICRA]A3
Packing Credit in Foreign Currency*		-	-	(5.00)	[ICRA]A3
FOUBNLC/ FOBNLC *	-	-	-	(5.00)	[ICRA]A3

*Sub-limit of Cash Credit

Source: Shri Damodar Yarn Manufacturing Private Limited

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About ICRA Limited:

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