March 05, 2020

Dixcy Textiles Private Limited: Rating reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based facility	130.00	155.00	[ICRA]A+(Stable)/[ICRA]A1+; reaffirmed
Unallocated facility	20.00	-	-
Total	**150.00**	**155.00**	

**Instrument details are provided in Annexure-1*

Rationale

The ratings favourably factor in the established presence of Dixcy Textiles Private Limited's (Dixcy) flagship brands (Dixcy and Scott) in the domestic market and its pan-Indian distribution network with robust presence across diverse geographies. Dixcy's revenue, during the last five years till FY2019, has grown at a healthy CAGR of 16.0% with revenue of Rs. 1,099.1 crore in FY2019. It has long established itself as a top player in the men's undergarment segment in the domestic market. While the growth is expected to be at ~5% only in FY2020 due to subdued demand condition and stagnant price realisation, the long-term growth prospects is likely to remain favourable for organised players such as Dixcy. The rating positively factors in the commencement of manufacturing and marketing of men's undergarments under Levis brand, which is expected to improve the company's presence in the premium segment, going forward. The rating considers its healthy financial risk profile, characterised by comfortable capital structure and coverage indicators in FY2019 and 6M FY2020, supported by an asset-light business model. Its TD/OPBDITA and interest coverage ratio stood healthy at 1.5 times and 7.4 times in 6M FY2020 against 1.3 times and 7.5 times in FY2019, respectively.

These strengths are, however, partially offset by the decline in operating margins in FY2019 and 6M FY2020 due to increase in employee costs and subdued growth in price realisations. Dixcy's operating margins remain vulnerable to raw material price fluctuation. Nonetheless, its return metrics remained healthy with RoCE at 18.2%in 6M FY2020 (as against 22.1% and 28.4% in FY2019 and FY2018, respectively). The rating continues to factor in the sizeable working capital requirements of the business, the fragmented and competitive nature of the domestic innerwear market, characterised by both organised (with well-recognised brands) and unorganised players, resulting in restricted pricing flexibility.

The Stable outlook on the [ICRA]A+ rating reflects ICRA's opinion that Dixcy will continue to benefit from its long track record of operations, established brands, strong pan-India distribution network and healthy financial risk profile.

Key rating drivers and their description

Credit strengths

Established presence in Indian innerwear garments – Dixcy has an established brand presence in various segments including economy, mid-premium and premium segments under the various brand names - Josh, Dixcy, Scott, Uno and Slimz. That apart, the company has a licensing agreement with Levis and has commenced sales under the brand in the current fiscal. Dixcy's revenue, during the last five years ending in FY2019, has grown at a healthy CAGR of 16.0% with revenue of Rs. 1,099.1 crore in FY2019. It is a top player in the men's undergarment segment in the domestic market. While the growth is expected to be at ~5% only in FY2020 due to subdued demand condition and stagnant price realisation, the long-term growth prospects is likely to remain favourable for branded players such as Dixcy.

Diversified revenue base supported by strong pan-Indian distribution network – Dixcy is geographically diversified across the domestic market with relatively higher concentration in the western and northern India. The diversified geographical presence is well supported by a strong marketing team and 1300+ distributors across India.

Healthy capital structure and debt protection metrics – The company has a healthy financial risk profile as illustrated by comfortable capital structure and healthy debt protection metrics. Its capital structure remained comfortable as witnessed from a gearing of 0.5 times as on March 31, 2019 and 0.4 times as on September 30, 2019 due to reduction in debt levels and healthy accretion to the reserves year after year. The coverage indicators remained comfortable as evidenced from TD/OPBDITA of 1.3 times and 1.5 times and interest coverage of 7.5 times and 7.4 times in FY2019 and 6M FY2020, respectively. Going forward, in the near-term, with minimal capex outlay and relatively stable probability, the company's debt protection metrics is expected to remain healthy.

Credit challenges

Moderation in operating margins – The company's operating margin decreased to 7.6% in FY2019 and 7.2% during 6M FY2020 from 8.7% in FY2018 on account of an increase in employee costs and subdued realisation. Post-acquisition by Advent International Corporation in September 2017, Dixcy's organisational structure changed and it roped in several executives and marketing personnel to bring in additional expertise and market presence. This along with price revision of the products had brought down the margin in H1, FY2019. However, decrease in raw material cost in H2 FY2020, is expected to support the margins to some extent in FY2020. Going forward, a likely increase in revenues and share of revenues from the premium segment, along with cost reduction and rationalisation measures undertaken by the company, are expected to support the improvement in its operating margins over the medium term. However, ICRA notes that, supported by the asset-light model, Dixcy's return metrics remained heathy with RoCE at 22.1% and 28.4% in FY2019 and FY2018, respectively.

Product, segment, asset concentration risks – The company's product profile remains concentrated with more than 70% of the revenue derived from inner wear garments (mainly men's segment). Additionally, unlike other major players in the Indian textile apparel segment, Dixcy has limited set of brands under its portfolio namely - Josh, Dixcy, Scott, Uno and Slimz, with a predominant portion of revenue derived from Dixcy and Scott brands, which caters to the mid-premium segment. Nonetheless, it has taken steps to diversify its brand portfolio and the licensing agreement with Levis brand is likely to support the company in penetrating into the premium segment. It has a single manufacturing unit located in Tamil Nadu with job-work units located in the nearby regions, which has exposed the company to asset concentration risk, given the highly labour-intensive nature of the industry.

Undergarment industry characterised by intense competition and working capital-intensive nature of operations – The industry is fragmented into the economy, mid-premium and premium segments with several players posing intense competition in the economy and mid-premium segments, limiting the pricing flexibility. The raw material price constitutes ~45% of the operating income (OI). With the price pass through depending on the market competition, the margins are susceptible to fluctuation in raw material prices. The undergarment industry is characterised by high working capital-intensive nature of operations to support inventory requirement across the distributor base. High inventory requirement arises from the longer manufacturing lead time as most of the process is being outsourced. Dixcy's working capital intensity remained at moderate level at 21.9% and 25.2% as on March 31, 2019 and September 30, 2019 with high inventory and debtor levels. However, ICRA notes that Dixcy's working capital intensity is lower compared to other major organised domestic players in the innerwear segment.

Liquidity position: Adequate

Dixcy's liquidity is **adequate** with likely sustained fund flow from operation amidst modest term loan repayment, minimal capital expenditure expected in near-term, stable working capital intensity and access to sizeable unutilised working capital facilities, given the utilisation levels of around 77% in the past twelve months. ICRA expects that in the near-term, the company's fund flow from operations and buffer available in the borrowing limits will remain adequate to meet any significant rise in working capital intensity. Further, it has comfortable drawing power position for availing incremental working capital limits.

Rating sensitivities

Positive triggers – ICRA could upgrade Dixcy's rating if there is a significant growth in scale and cash accruals supported by enhanced product/ brand portfolio and/or geographical presence and increasing market share, while sustaining working capital intensity, and profitability (with ROCE at more than 20%).

Negative triggers – ICRA could downgrade Dixcy's rating if there is a weakening of debt protection metrics on account of a decline in profitability or significantly higher debt levels (on account of any higher than expected capex/working capital intensity). ICRA could downgrade Dixcy' rating if there is a decrease in operating margins below 5% and Total Debt / OPBITDA increases to more than 1.8 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in the Textiles Industry - Apparels
Parent/Group Support	NA
Consolidation/Standalone	Rating is based on consolidated financial statements of Dixcy Textiles Private Limtied and Dixcy Marketing LLP (formerly known as Fine Marketing)

About the company

Dixcy is primarily involved in making innerwear garments for men, women and kids. The company also makes casual wear, night wear and thermo / winter wear. Its products are sold in the domestic market under the brand names Dixcy, Josh, Scott and UNO. That apart, it has licensing agreement for manufacturing and marketing men's undergarments under Levis brand.

In September 2017, Advent International Corporation (Advent), a global private equity investor, acquired a significant ownership interest (60%) in Dixcy through its subsidiary Varenna Holding Limited and had increased its ownership to 100% in October 2019 by buying out the shareholding of its erstwhile promoter - Mr. Prem Prakash Sikka (Promoter) and his family . Mr. Jacob John is the Managing Director and Chief Executive Officer.

Founded in 1984, Advent is one of the largest and most experienced global private equity investors. The firm has invested $ 48 billion in over 350 private equity transactions in 41 countries, and as on September 30, 2019, had $56.6 billion in assets under management. With offices on four continents, Advent has established a globally integrated team of more than 200 investment professionals across North America, Europe, Latin America and Asia.

Key financial indicators (audited)

	FY2018	FY2019
Operating Income (Rs. crore)	972.0	1,099.1
PAT (Rs. crore)	46.2	40.0
OPBDIT/OI (%)	8.7%	7.6%
RoCE (%)	28.4%	22.1%
Total Outside Liabilities/Tangible Net Worth (times)	1.6	1.5
Total Debt/OPBDIT (times)	1.5	1.3
Interest Coverage (times)	8.8	7.5
DSCR	5.8	3.9

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Rating (FY2020)				Rating History for the Past 3 Years				
		Type	Amount Rated	Amount Outstanding	Rating	FY2019		FY2018		FY2017
					5-Mar-2020	7-Jan-2019	22-Jun-2018	16-Feb-2018	14-Nov-2017	03-Oct-2016
1	Cash Credit	Long / Short Term	155.00	-	[ICRA]A+ (Stable)/ [ICRA]A1+	[ICRA]A+ (Stable)/ [ICRA]A1+	[ICRA]A+ (Stable)/ [ICRA]A1	[ICRA]A+ (Stable)/ [ICRA]A1	[ICRA]A (Positive)/ [ICRA]A1	[ICRA]A- (Stable)/ [ICRA]A2+
2	Unallocated facility	Long / Short Term	-	-	-	[ICRA]A+ (Stable)/ [ICRA]A1+	-	-	-	-

Amount in Rs. crore

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	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit 1	NA	NA	NA	130.00	[ICRA]A+(Stable)/ [ICRA]A1+
NA	Cash Credit 2	NA	NA	NA	25.00	[ICRA]A+(Stable)/ [ICRA]A1+

Source: Dixcy Textiles Private Limited

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Dixcy Textiles Private Limited	100.00%	Full Consolidation
Dixcy Marketing LLP	99.00%	Full Consolidation

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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