Dixcy Textiles Private Limited

June 22, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
LT/ST: Fund based facilities	50.00	125.00	[ICRA]A+(Stable)/[ICRA]A1; Outstanding/Assigned
Total	**50.00**	**125.00**	

Rating action

ICRA has assigned long-term rating and short-term rating to the enhanced amount of Rs. 125.00 crore[1] (enhanced from Rs 50.00 crore) fund-based facilities of Dixcy Textiles Private Limited (Dixcy) [2] at [ICRA]A+ (pronounced ICRA A plus) and [ICRA]A1 (pronounced ICRA A one). The outlook on long-term rating is Stable.

Rationale

The assigned/outstanding rating reflects the sustained scaling up of operations, improvement in profitability and debt-protection metrics in FY2018, in line with ICRA's expectations. The company witnessed robust growth in revenue in FY2017 and FY2018 due to increasing market share in the mid-premium inner-wear segment on the back of continued marketing and branding efforts. The revenue for the consolidated entities, Dixcy Textiles Pvt. Ltd. and its subsidiary, Fine Marketing Private Limited (together referred to as the Group), grew by 25% in FY2018. The ratings also continue to favourably factor in the established presence of the company's flagship brands, 'Dixcy' and 'Scott', in the domestic market in their respective price points and significant experience of the promoters in the business for more than three decades. The company has a strong pan-India distribution network and robust presence across diverse geographies.

However, the ratings continue to be constrained by the intensely competitive domestic inner-wear market, characterised by a number of organised (with well-recognised brands) and un-organised players, resulting in restricted price flexibility. 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 for the company.

Outlook: Stable

Going forward, the outlook may be revised to Positive if the company demonstrates further significant improvement in scale and market position, while maintaining its profitability metrics and strengthening the capital structure. Conversely, the outlook on the rating may be revised to Negative, 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.

---

[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*

Key rating drivers

Credit strengths

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

Diversified revenue base, supported by strong pan-India distribution network - Dixcy brand has geographically diversified presence across the domestic market with higher concentration in the western and northern region. The diversified customer base is well supported by 1000+ distribution channel across India.

Improving scale of operations, aided by an increase in focus in mid-premium segment – The company witnessed robust growth in revenue in FY2017 and FY2018 due to higher market penetration in the mid-premium inner-wear segment on the back of continued marketing and branding efforts. Improvement in the market share has been supported by the company's advertisement strategy of bringing in reputed brand ambassadors across geographies.

Financial profile characterised by healthy debt-protection metrics – The operating margins remained healthy at 9.4% in FY2018. The debt-protection metrics also improved in FY2018 strengthened on the back of improvement in profitability metrics.

Credit weaknesses

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

Operating margins are susceptible to fluctuation in raw-material prices– The raw-material price constitutes 45-50% of the operating income. With the price pass-through depending on market competition, the margins are susceptible to fluctuation in raw-material prices.

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, at the consolidated level, the working-capital intensity continues to be stretched at 25.8% and 23.7% as on March 31, 2017 and March 31, 2018 characterised 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 major part of the process is 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
Indian Textiles Industry – Apparels

About the company:

Dixcy Textiles Private Limited is primarily involved in making innerwear for men, women and kids, which contributes to significant portion of 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 including Dixcy, Josh, Dixcy Scott, Dixcy Scott Uno and Slimz. In October 2017, Advent International a global private equity investor acquired a significant ownership interest in Dixcy Textiles Private Limited.

Key Financial Indicators (Standalone/consolidated)

	FY 2016 Audited Stand alone	FY 2017 Audited Stand alone	FY 2016 Audited Consolidated*	FY 2017 Audited Consolidated*	FY2018 Provisional Consolidated*
Operating Income (Rs. crore)	568.8	731.9	613.1	785.3	978.1
PAT (Rs. crore)	20.4	39.7	18.9	38.5	49.7
OPBDIT/ OI (%)	8.5%	9.1%	8.0%	9.5%	9.4%
RoCE (%)	17.2%	26.9%	18.5%	29.8%	30.3%
Total Debt/ TNW (times)	0.9	0.8	0.8	0.7	0.6
Total Debt/ OPBDIT (times)	2.2	1.9	1.8	1.4	1.2
Interest coverage (times)	3.6	7.6	3.6	8.1	9.4
NWC/ OI (%)	22.4%	24.3%	24.7%	25.8%	23.7%

*Consolidated for fine marketing and M/s. Raghul Sikka & Shanmugavel (AOP)

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

			Current Rating (FY2019)			Chronology of Rating History for the past 3 years			
	Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Date & Rating in FY2019 June 2018	Date & Rating in FY2018 Feb 2018	Nov 2017	Date & Rating in 2017 Oct 2016	Date & Rating in FY2016
1	CC/PC	Long Term/ Short term	125.0	112.68*	[ICRA]A+(Stable)/ [ICRA] A1	[ICRA]A+ (Stable)/ [ICRA]A1	[ICRA] A (positive)/ [ICRA]A1	[ICRA]A- (stable) / [ICRA]A2+	NA

*as on March 31, 2018

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	125.00	[ICRA]A+(stable)/ [ICRA]A1

Source: Dixcy textiles private Limited.

ANALYST CONTACTS

Ravichandran. K
+91 44 4596 4301
ravichandran@icraindia.com

Srinivasan. R
+91 44 4596 4315
r.srinivasan@icraindia.com

Raghav Madhavan
+91 44 4297 4310
raghav.madhavan@icraindia.com

Rathina Pradeep
+91 44 4297 4315
rathina.r@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee
+91 80 4332 6401
jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries:

+91-124-2866928 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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.

For more information, visit www.icra.in

ICRA Limited

Corporate Office
Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002
Tel: +91 124 4545300
Email: info@icraindia.com
Website: www.icra.in

Registered Office
1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001
Tel: +91 11 23357940-50

Branches

Mumbai	+ (91 22) 24331046/53/62/74/86/87
Chennai	+ (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,
Kolkata	+ (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,
Bangalore	+ (91 80) 2559 7401/4049
Ahmedabad	+ (91 79) 2658 4924/5049/2008
Hyderabad	+ (91 40) 2373 5061/7251
Pune	+ (91 20) 6606 9999