Dixcy Textiles Private Limited

January 07, 2019

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund based facility	125.00	130.00	[ICRA]A+ (Stable) / [ICRA]A1+; Long term rating reaffirmed and short term rating upgraded from [ICRA]A1
Unallocated facility	-	20.00	[ICRA]A+ (Stable) / [ICRA]A1+; Long term rating reaffirmed and short term rating upgraded from [ICRA]A1
Total	**125.00**	**150.00**	

*Instrument details in Annexure -1

Rationale

The upgrade in the short-term rating takes into consideration the healthy financial risk profile of Dixcy Textiles Private Limited (Dixcy) characterised by an improvement in its scale of operations, healthy operational cash flows and a comfortable capital structure in FY2018 and 6M FY2019. The rating also positively factors in the company's new licensing agreement for manufacturing and marketing men's undergarments under Levis brand, which is expected to improve its presence in the premium segment, going forward. The rating also continues to favourably factor in the established presence of its flagship brands – Dixcy and Scott in the domestic market with a pan-Indian distribution network and robust presence across diverse geographies.

However, the rating continues to be constrained by the intensely competitive domestic inner-wear market characterised by both organised (with well-recognised brands) and unorganised players, resulting in restricted pricing flexibility and operating margins being vulnerable to raw material prices price fluctuation. The rating factors in the company's relatively limited product diversification with higher proportion of revenues generated from the economy and the mid-price segments. The rating is also constrained by its high working capital requirements necessary to support stock requirements across the product range and distributor base.

Outlook: Stable

The Stable outlook reflects ICRA's expectations that Dixcy's credit profile will continue to benefit from the established brand presence and strong pan-Indian distribution network. The outlook may be revised to Positive if the company demonstrates further improvement in its scale and market position with better product and segment diversification, while maintaining its profitability metrics and strengthening the capital structure. Conversely, the outlook may be revised to Negative, in case of any deterioration in the company's market share; or adverse movement in profitability margins, working capital management, or if any large debt-funded capex affects the debt protection indicators.

Key rating drivers

Credit strengths

Established brand presence in the men's innerwear segment - 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. However, the company generates a major portion of its revenues from the mid-premium segment.

Diversified revenue base supported by a 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 1000+ distributors across India.

Healthy financial risk profile - 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 0.7 times as on March 31, 2018 and 0.6 times as on September 30, 2018 due to healthy accretion to the reserves year after year. The coverage indicators also remained comfortable as evidenced from TD/OPBDITA of 1.5 times and 1.6 times and interest coverage of 8.8 times and 9.0 times in FY2018 and 6M FY2019, respectively.

Healthy revenue growth in the recent past - The company witnessed a robust growth in revenue in FY2018 (~24%) and 6M FY2019 (~23% YoY) due to higher market penetration in the mid-premium inner-wear segment on the back of continued marketing and branding efforts. Moreover, going forward, the licensing agreement for Levis brand is likely to aid in revenue growth.

Credit challenges

Product, segment, asset concentration risk - The company's product profile remains concentrated with more than 90% of the revenue derived from underwear 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.

Intense competition in the fragmented industry limits pricing flexibility - The industry is fragmented into the economy, mid-premium and premium segment with several players posing intense competition in the economy and mid-premium segment, limiting the pricing flexibility. The raw material price constitutes 45% to 50% 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. Nonetheless, the company was able to improve its top line and sustain the profitability despite the intense competition in these segments.

High working capital intensity - The working capital intensity continued to remain high at 24.1% and 23.8% as on March 31, 2018 and September 30, 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 the longer manufacturing lead time as most of the process is being outsourced. However, ICRA notes that Dixcy's working capital intensity is lower compared to other organised domestic players in the innerwear segment.

Liquidity position

The liquidity position continues to remain comfortable with healthy operational cash flows and comfortable drawing power position for availing incremental working capital limits. However, ICRA notes that the company had an average working capital utilisation of ~85% of the sanctioned limits in the past twelve months. Going forward, with moderate capital expenditure plans and increasing working capital requirement (on account of increasing scale), its liquidity risk profile remains sensitive to additional sanction of working capital limits.

Analytical approach

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

About the company

Dixcy is primarily involved 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. In September 2017, Advent International Corporation, a global private equity investor, acquired a significant ownership interest (60%) in Dixcy through its subsidiary Varenna Holding Limited. Mr. Prem Prakash Sikka (promoter) is the Chairman of the company and Mr. Raghul Sikka is one of the Directors. Mr. Jacob John is the Managing Director and Chief Executive Officer.

Key financial indicators (Audited)

	FY2017	FY2018
Operating Income (Rs. crore)	785.3	972.0
PAT (Rs. crore)	38.5	46.2
OPBDIT/ OI (%)	9.5%	8.7%
RoCE (%)	29.8%	29.2%
Total Debt/ TNW (times)	0.8	0.7
Total Debt/ OPBDIT (times)	1.5	1.5
Interest Coverage (times)	8.1	8.8
NWC/ OI (%)	25.8%	24.1%

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

	Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding as on Sep 30, 2018 (Rs. crore)	Current Rating (FY2019) Date & Rating Jan 2019	Jun 2018	Chronology of Rating History for the past 3 years: Date & Rating in FY2018 Feb 2018	Nov 2017	Date & Rating in FY2017 Oct 2016	Date & Rating in FY2016 -
1	Cash Credit	Long/ Short Term	130.00	-	[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	Unllaocated facility	Long/ Short Term	20.00		[ICRA]A+ (Stable) / [ICRA]A1+	-	-	-	-	-

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
NA	Cash Credit	-	-	-	130.00	[ICRA]A+(Stable)/ [ICRA]A1+
NA	Unallocated facility	-	-	-	20.00	[ICRA]A+(Stable)/ [ICRA]A1+

Source:Dixcy Textiles Private Limited

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