CRISIL Ratings

Rating Rationale

June 18, 2024 | Mumbai

Damodar Industries Limited

Ratings upgraded to 'CRISIL BBB-/Stable/CRISIL A3'; Removed from 'Watch Developing'

Rating Action

Total Bank Loan Facilities Rated	**Rs.270 Crore**
Long Term Rating	**CRISIL BBB-/Stable (Upgraded from 'CRISIL BB+'; Removed from 'Rating Watch with Developing Implications')**
Short Term Rating	**CRISIL A3 (Upgraded from 'CRISIL A4+'; Removed from 'Rating Watch with Developing Implications')**

Rs.40 Crore Fixed Deposits	**CRISIL BBB-/Stable (Upgraded from 'CRISIL BB+'; Removed from 'Rating Watch with Developing Implications')**

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1 crore = 10 million
Refer to Annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL Ratings has removed its ratings on the bank facilities and fixed deposits of Damodar Industries Limited (DIL) from 'Rating Watch with Developing Implications' and has upgraded its rating to '**CRISIL BBB-/CRISIL A3**' from 'CRISIL BB+/CRISIL A4+' while assigning the **'Stable'** outlook to the long term rating.

CRISIL Ratings placed the rating on watch on December 27, 2023, following the update given by the management on the sale of Dadra plant.

The watch resolution and upgrade reflect enhanced financial risk profile of the company, especially liquidity, backed by receipt of subsidy and realization from sale of plant along with expected improvement in operating performance.

The proposed sale of Dadra plant to Suam Overseas Private Limited (associate company) is expected to result in cash realization of over Rs 38 crore expected to be utilized towards prepayment of term loans and working capital. Company has also received interest subsidy from the state government of Rs 26 crore which was used to repay the debt of the company thereby improving the financial risk profile of company. Going forward Gearing is expected to go sub 1.5 times and total outside liabilities to total networth (TOLTNW) sub 1.7 times. Interest coverage ratio is expected to improve over 3 times. Liquidity is expected to improve due to prepayment. Repayment obligations will decline to ~12-15 crores per annum which will be sufficient against the net cash accruals expected over Rs 24 crore.

While the company's operating margin was impacted during H1 of fiscal 2024, the company has seen healthy improvement in Q4 of fiscal 2024 which is expected to sustain over the medium term.

The ratings reflect the established market position of the company and efficient working capital management. These strengths are partially offset by average debt protection metrics, vulnerability to fluctuations in raw material prices and foreign exchange (forex) rates.

Analytical Approach

Unsecured loan of Rs 30.8 crores have been treated as debt as these are to be paid over the medium term.

Key Rating Drivers & Detailed Description

Strengths:

- **Established market position:** The marked position is marked by moderate scale of operations, diversified geography profile and customer base. Moderate scale of operations provides it an operating flexibility in an intensely competitive industry. DIL caters to wide customer base, both in India and Overseas, with revenue from the export market gradually increasing. Further, it also benefits from the promoters' experience of over four decades, their strong understanding of market dynamics, and healthy relations with customers and suppliers which will continue to support the business.

- **Efficient working capital management:** The working capital is efficiently managed, reflected in gross current assets (GCAs) of 90-130 days for the five fiscals through 2024, driven by receivables of 30-50 days and inventory of ~60 days. Working capital cycle is expected to remain in the similar range over the medium term.

Weaknesses:

- **Average debt protection metrics:** Debt protection metrics were average because of modest profit and sizeable interest outgo., Interest coverage and net cash accrual to total debt ratios were above 1 time and 0.10 times, respectively, with prepayments done in fiscal 2024 and 2025 debt protection metrics is expected to improve and will remain key monitorable over the medium term.

- **Vulnerability to fluctuations in raw material prices and forex rates:** Company's operating margin has remained average in range of 4.5%-8.8% for last 6 years through fiscal 2024. Prices of cotton, the key raw material as well as polyester are volatile, and some are linked to crude oil prices. Limited possibility to fully pass on prices to customers due to intense competition in export segment subjects the company's operating margin to fluctuation in material prices. However, this risk is partly mitigated by moderate inventory levels. Also, since majority of revenue comes from the international market, any sharp fluctuation in forex rates can affect realizations and accruals. While operating margin has improved since Q4 FY24, sustenance of the operating margin will be a key sensitivity.

Liquidity: Adequate

Liquidity is adequate marked by net cash accruals expected to be over Rs 25 crores against repayment obligations of Rs 12-30 crores over the medium term. Bank Limit Utilization is 91.5% utilized for the last 12 months ending February 2024. The company has received interest subsidy from the state government which was used to prepay the long-term borrowing outstanding. The company has no major capex plans for the medium term. The promoters will likely extend support through equity and unsecured loans to meet working capital requirement and debt obligation in case of exigencies.

Outlook: Stable

CRISIL Ratings believes DIL will continue to benefit from the extensive experience of the promoters and established relationships with clients.

Rating Sensitivity factors

Upward factors

- Sustenance of revenue while maintaining operating margin leading to higher-than-expected cash accrual and net cash accruals to repayment ratio of over 2 times
- Improvement in the financial risk profile with total outside liabilities to total networth (TOLTNW) ratio improving below 1.4 times.

Downward factors

- Decline in revenue or operating margin below 4% leading to sharp drop in net cash accruals.
- Large, debt-funded capex or increase in working capital requirement, weakening the capital structure and liquidity.

About the Company

DIL was incorporated in 1987 by Mr Arun Biyani, Mr Ajay Biyani and Mr Anil Biyani. The company was reconstituted as a public limited company on March 20, 1992. It manufactures synthetic blended yarn and sells its products under the brand Damodar. It is also a merchant exporter of cotton yarn.

Key Financial Indicators

Particulars	Unit	2024	2023
Revenue	Rs crore	715	685
Profit after tax (PAT)	Rs crore	5.2	0.8
PAT margin	%	0.73	0.12
Adjusted debt / adjusted networth	Times	2.22	2.6
Interest coverage	Times	1.95	1.96

Status of non cooperation with previous CRA

DIL has not cooperated with Credit Analysis & Research Ltd, which has classified the company as issuer not cooperative through a rationale dated 1st February 2021, on account of non-furnishing of information for the monitoring of ratings.

Any other information: Not Applicable

Note on complexity levels of the rated instrument:

CRISIL Ratings` complexity levels are assigned to various types of financial instruments and are included (where applicable) in the 'Annexure - Details of Instrument' in this Rating Rationale.

CRISIL Ratings will disclose complexity level for all securities - including those that are yet to be placed - based on available information. The complexity level for instruments may be updated, where required, in the rating rationale published subsequent to the issuance of the instrument when details on such features are available.

For more details on the CRISIL Ratings` complexity levels please visit www.crisilratings.com. Users may also call the Customer Service Helpdesk with queries on specific instruments.

Annexure - Details of Instrument(s)

ISIN	Name of instrument	Date of allotment	Coupon rate (%)	Maturity date	Issue size (Rs.Crore)	Complexity Levels	Rating assigned with outlook
NA	Fixed deposits	NA	NA	NA	40	Simple	CRISIL BBB-/Stable
NA	Bank guarantee	NA	NA	NA	2	NA	CRISIL A3
NA	Cash credit	NA	NA	NA	138	NA	CRISIL BBB-/Stable
NA	Foreign exchange facility	NA	NA	NA	3	NA	CRISIL A3
NA	Letter of credit	NA	NA	NA	4	NA	CRISIL A3
NA	Term loan	NA	NA	Mar-2026	12.35	NA	CRISIL BBB-/Stable
NA	Proposed Fund-Based Bank Limits	NA	NA	NA	75	NA	CRISIL BBB-/Stable
NA	Working Capital Term Loan	NA	NA	Mar-2027	35.65	NA	CRISIL BBB-/Stable

Annexure - Rating History for last 3 Years

	Current			2024 (History)		2023		2022		2021		Start of 2021
Instrument	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund Based Facilities	ST/LT	264.0	CRISIL BBB-/Stable / CRISIL A3	26-03-24	CRISIL A4+/Watch Developing / CRISIL BB+/Watch Developing	27-12-23	CRISIL A4+/Watch Developing / CRISIL BB+/Watch Developing	22-06-22	CRISIL BBB-/Stable / CRISIL A3	09-03-21	CRISIL BB+/Stable / CRISIL A4+	--
			--		--	13-10-23	CRISIL BB+/Stable / CRISIL A4+	18-02-22	CRISIL BBB-/Stable / CRISIL A3		--	--
			--		--	12-10-23	CRISIL BB+/Stable / CRISIL A4+		--		--	--
			--		--	17-02-23	CRISIL BBB-/Negative / CRISIL A3		--		--	--
Non-Fund Based Facilities	ST	6.0	CRISIL A3	26-03-24	CRISIL A4+/Watch Developing	27-12-23	CRISIL A4+/Watch Developing	22-06-22	CRISIL A3	09-03-21	CRISIL A4+	--
			--		--	13-10-23	CRISIL A4+	18-02-22	CRISIL A3		--	--
			--		--	12-10-23	CRISIL A4+		--		--	--
			--		--	17-02-23	CRISIL A3		--		--	--
Fixed Deposits	LT	40.0	CRISIL BBB-/Stable	26-03-24	CRISIL BB+/Watch Developing	27-12-23	CRISIL BB+/Watch Developing	22-06-22	CRISIL BBB-/Stable	09-03-21	F B+/Stable	F B+ /Stable(Issuer Not Cooperating)*
			--		--	13-10-23	CRISIL BB+/Stable	18-02-22	F A-/Stable	05-03-21	F B+/Stable	--
			--		--	12-10-23	CRISIL BB+/Stable		--		--	--
			--		--	17-02-23	CRISIL BBB-/Negative		--		--	--

All amounts are in Rs.Cr.
** - Issuer did not cooperate; based on best-available information*

Annexure - Details of Bank Lenders & Facilities

Facility	Amount (Rs.Crore)	Name of Lender	Rating
Bank Guarantee	2	State Bank of India	CRISIL A3
Cash Credit	11	YES Bank Limited	CRISIL BBB-/Stable
Cash Credit	25	HDFC Bank Limited	CRISIL BBB-/Stable
Cash Credit	30	Kotak Mahindra Bank Limited	CRISIL BBB-/Stable
Cash Credit	52	State Bank of India	CRISIL BBB-/Stable
Cash Credit	20	Bank of Baroda	CRISIL BBB-/Stable
Foreign Exchange Facility	3	State Bank of India	CRISIL A3
Letter of Credit	4	State Bank of India	CRISIL A3
Proposed Fund-Based Bank Limits	75	Not Applicable	CRISIL BBB-/Stable

Term Loan	**3.87**	**Kotak Mahindra Bank Limited**	**CRISIL BBB-/Stable**
Term Loan	**5.18**	**State Bank of India**	**CRISIL BBB-/Stable**
Term Loan	**3.3**	**YES Bank Limited**	**CRISIL BBB-/Stable**
Working Capital Term Loan	**17.6**	**State Bank of India**	**CRISIL BBB-/Stable**
Working Capital Term Loan	**4.58**	**Kotak Mahindra Bank Limited**	**CRISIL BBB-/Stable**
Working Capital Term Loan	**5.6**	**HDFC Bank Limited**	**CRISIL BBB-/Stable**
Working Capital Term Loan	**7.87**	**YES Bank Limited**	**CRISIL BBB-/Stable**

Criteria Details

Links to related criteria
CRISILs Approach to Financial Ratios
Rating criteria for manufaturing and service sector companies
CRISILs Bank Loan Ratings - process, scale and default recognition
CRISILs criteria for rating fixed deposit programmes
Understanding CRISILs Ratings and Rating Scales
CRISILs Criteria for rating short term debt

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