Press Release

Duke Fabrics (India) Limited

June 03, 2020

Rating

Sl. No.	Instrument/Facility	Amount (Rs. Crore)	Rating	Rating Action
1.	Long Term Bank Facilities	26.59	IVR BBB-/Credit watch with developing implications (IVR Triple B Minus Under credit watch with developing implications)	Assigned
2.	Short Term Bank Facilities	5.00	IVR A3(IVR A Three)	Assigned
	Total	**31.59**		

Details of Facilities are in Annexure 1

Detailed Rationale

The rating assigned to the bank facilities of Duke Fabrics (India) Limited draws comfort from its experienced of the promoters in the apparel industry, established brand presence through Duke and successful track record. The ratings also positively considers continuous scale of operations and satisfactory capital structure. However, these rating strengths are partially offset by its susceptibility to fluctuations in input prices, working capital intensive nature of operations, exposure to regulated risk. The rating also considers the intense competition prevalent in the textile industry and availability of cheaper substitutes.

Key Rating Sensitivities:

Upward Factor:

- Substantial and sustained growth in operating income, profitability and consequent increase in debt protection metrics and cash accrual.
- Improvement in capital structure and improvement in operating cycle

Downward factor:

- Elongation of working capital cycle driven by pile up of inventory and stretch in receivables.
- Substantial fall in profitability margin resulting deterioration in debt protection matrix.

Press Release

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

Extensive experience of the promoters in the apparel industry

The promoter, Mr. Komal Jain is associated with the business since inception and has around five decades in the textile industry. He looks after the overall business operations of the company along with the family members and is supported by qualified professional & technical team. The company is benefited by experienced management, who has helped the company to maintain healthy and long-standing relationship with the customers.

Established brand presence through Duke and successful track record

DFIL is a part of strong and well-renowned brand "Duke" in Punjab. Duke group has a presence in textile segment, it caters to men, women and kids apparel in domestic market. Duke group comprises of Duke Fashion India limited, Duke Fabrics India Limited and Neva Garments Limited.

DFIL is a backward integration of Duke Fashion India Limited. Duke Fashion India Limited has approx. 46% of shareholding in DFIL and DFIL customer profile consist of well know clients such as Duke Fashions India Ltd, Nylon Hosiery Mills, Neva Garments Ltd, etc. The company is benefitted by the extensive experience promoters in textile industry supported by qualified professional and technical team .Duke Fashion India Limited is operating with total revenue of Rs 350 cr ,reserves of Rs 128 crore and bank exposure of approx Rs 50 crore in FY19.

Continuous Scale of operations

The scale of operations of the company remained modest. The total operating income of the firm has witnessed an increasing trend over the years and stood at Rs.88.80 crore in FY19 (Rs.85.72 crore in FY17) with sustained growth at a CAGR of 1.15%, on the back of increase in sales volume along with increase in average sales realization. Also, the company gets benefitted from its long standing relationship with its customers for repeat orders and DFIL is looking to tap on potential customer's .With improved scale of operations, EBITDA margin has been improved from 7.21% in FY18 to 7.30% in FY19.PAT margin witnessed steady improvement from 1.36% in FY18 to 1.73% in FY19. The company achieved total operating

income Rs 66.17 till December 2019. Company has earned a modest gross cash accruals of Rs.2.71crore in FY19 (Rs 2.77 crore in FY18)

Satisfactory capital structure

The overall gearing ratio and interest coverage ratio is comfortable at 0.89 times and 2.15times as on March 31, 2019. Total indebtedness of the company as reflected by TOL/TNW improved from 2.11x as on March 31, 2018 driven by decrease in current liability and steady accretion of profit to net worth and remained satisfactory at 1.92x as on March 31, 2019.Further the company has earned as gross cash accruals of Rs 2.71 crore as against it's debt repayment obligation of Rs 1.02 crore. The current and quick ratios are moderate at 1.41 x and 0.74x respectively as on March 31,2019.

Key Rating Weaknesses

Susceptibility to fluctuations in input prices

The major raw materials are grey fabrics, colour, chemical and fuel. Acquiring and storing of adequate amount of inventory plays a very important role in Textile industry. Cotton, wool ,silk, jute fabric are agro based, their prices are volatile in nature which may lead to fluctuation in revenue and profitability.

Intense competition prevalent in the textile industry and availability of cheaper substitutes

The company is exposed to intense competition prevalent in the highly fragmented Indian textile industry and faces stiff competition from both organised and unorganised players. Also, the company faces risk from its substitutes such as polyester, cotton and increasing imports leads to cheaper availability of the raw materials. For the competitive landscape, the company faces stiff competition in both domestic and overseas market.

Exposure to regulatory risk

DFIL, like other players in the textile industry, remains exposed to changes in the legal and regulatory environment such as revision of tax rates, changes in import duty, etc.

Working capital intensive nature of operations

Operations of the company are working capital intensive, marked by its high operating cycle of 169 days for FY19 as compared to 143 days for FY18.The inventory days are high at around 154 days for FY19, primarily due to high raw material holding period. The finished goods inventory of the company is around 47 days. The finishing of cloth, colour matching and quality of printing to be maintained for the dyeing and printing of fabrics are stringent and have to meet the quality parameters set by the ultimate clients. Before processing the fabric, samples have to be approved by the clients which increases the processing time. It is evident from the fact that the average collection period is 132 days in FY19.DFIL procures raw fabric mainly from suppliers located locally in Ludhiana on credit of around 3 to 4 months. The operating cycle hovered around a 4 to 5 month during the last three fiscals. The company has utilised ~87.32% of working capital in 12 months ended December, 2019.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Manufacturing Companies
Financial Ratios & Interpretation (Non-financial Sector)

Liquidity – Adequate

The liquidity position of the company is expected to remain adequate marked by its expected gross cash accruals in the range of Rs.2.71-3.55 crore as compared to debt obligations in the range of Rs.1.12-0.96 crore during FY20-22. However, the liquidity is constrained due to its working capital intensive nature of its operations as operating cycle of company elongated at 169 days as on March 31, 2019. Further, its bank limits are highly utilized to the extent of ~88% during the past 12 months ended December, 2020.DFIL has free cash balance of Rs.0.35 Cr. The current and quick ratio remains moderate at 1.41x and 0.74x in FY19.

Press Release

About the Firm

Duke Fabrics (India) Limited (DIFL) was incorporated in 1983 as Venus Cotsyn (India) Limited, and commenced operations in Textile Processing Plant at Ludhiana, Punjab. DIFL is engaged in dyeing & sale of yarn and processing & sales of Knitted cloth along with other ancillary processes dyeing/washing, stentering, compaction, sueding, raising of knitted fabrics with current capacity of 7 to 8 tonne fabrics daily. The company is known as a quality producer having plant & machinery from the world-renowned manufacturers.

DFIL is promoted by Sh Komal Kumar Jain, Kuntal Raj Jain, Kanchan Jain and Duke Fashion India Limited. The company is being run by Sh Komal Kumar Jain who is assisted by his son Kuntal Jain and with the support of qualified professional & technical team who has an extensive experience in the textile processing industry.

The company belongs to the Duke group which is engaged in the manufacturing of fabrics and sale of garments. Duke Fabrics (India) Limited is a flagship company of Duke Fashion India Limited. The other company to the group is Duke Fashion India Limited and Neva Garments Limited engaged in garments segment.

Financials (Standalone):

(Rs. crore)

For the year ended*/As on	31-03-2018	31-03-2019
	Audited	Audited
Total Operating Income	87.62	88.80
EBITDA	6.31	6.48
PAT	1.20	1.53
Total Debt	25.24	25.07
Tangible Net worth	26.80	28.32
EBITDA Margin (%)	7.21	7.30
PAT Margin (%)	1.36	1.73
Overall Gearing Ratio (x)	0.94	0.89

Classification as per Infomerics' standards

Status of non-cooperation with previous CRA: Issuer not cooperating by CARE vide press release dated April 03, 2020 due to non-availability of information.

Any other information: Nil

Press Release

Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2020-21)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18
1.	Term Loan	Long Term	6.29	IVR BBB-/Credit watch with developing implications(IVR Triple B Minus Under credit watch with developing implications)	-	-	-
2.	Cash Credit	Long Term	20.30	IVR BBB- / Credit watch with developing implications (IVR Triple B Minus Under credit watch with developing implications)	-	-	-
3.	Letter of Credit	Short Term	5.00	IVR A3			

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.

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About Infomerics:

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities

and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. It is gradually gaining prominence in domestic rating and/or grading space. Infomerics is striving for positioning itself as the most trusted & credible rating agency in the country and is gradually widening its product portfolio. Company's long experience in varied spectrum of financial services is helping it to fine tune its product offerings to best suit the market.

Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Long Term Bank Facilities – Term Loan	-	-	June 2027	6.29	IVR BBB-/Credit watch with developing implications
Long Term Bank Facility- Cash Credit	-	-	-	20.30	IVR BBB-/Credit watch with developing implications
Short Term Bank Facility- Letter of Credit			-	5.00	IVR A3