Press Release

Davinder Sandhu Impex Private Limited

April 09, 2024

Ratings

S.No	Instrument /Facility	Amount* (Rs. Crore)	Ratings	Rating Action	Complexity Indicator
1.	Long Term Bank Facility	11.00	IVR BB+ (Stable) (IVR Double B Plus with Stable Outlook)	Assigned	Simple
2.	Long Term/Short Term Bank Facility	29.50*	IVR BB+ (Stable) / IVR A4+ (IVR Double B Plus with Stable Outlook/IVR A Four Plus)	Assigned	Simple
3.	Short Term Bank Facility	1.00	IVR A4+ (IVR A Four Plus)	Assigned	Simple
	Total	**41.50**	**Rupees Forty-One Crores and Fifty Lakh Only**		

**Including CC limit of Rs. 3.00 crore*

Details of Facilities are in Annexure 1

Detailed Rationale

Infomerics Valuation and Rating Private Limited (IVR) has assigned long-term rating of IVR BB+ with a Stable outlook and short-term rating of IVR A4+ for the bank loan facilities of Davinder Sandhu Impex Private Limited (DSIPL).

The rating assigned to the DSIPL is on account of experienced promoters, comfortable debt protection metrics, favorable location of operations, long-term relationships with customers and suppliers & stable demand outlook for the industry. However, these strengths are partially offset by the working capital-intensive nature of operations, geographical concentration, highly competitive nature of business and susceptibility of operating margin to volatile input prices.

The Stable outlook indicates a low likelihood of rating change in the medium term. IVR believes that DSIPL's business & financials risk profile will be maintained over the medium term on the back of DSIPL's established track record of operations, & stable demand outlook for the industry which provides revenue visibility in medium term.

IVR has principally relied on the standalone audited financial results of DSIPL up to FY23, three years projected financials till FY26, and publicly available information/ clarifications provided by the company's management.

Key Rating Sensitivities:

Upward Factors

- Substantial improvement in the scale of operations and profitability margins on a sustained basis.
- Sustained improvement in working capital cycle improving cash flows and liquidity of the company.

Downward Factors

- More than expected moderation in scale of operations thereby leading to deterioration in profitability impacting the debt coverage indicators and/or deterioration in the financial risk profile.
- Any further significant rise in working capital intensity or unplanned capex leading to a deterioration in the liquidity position.

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

Experienced promoters and long track record of operations

DSIPL has a sound operational track record since 2007. The company is promoted by Mr. Balvinder Singh along with his son, Mr. Davinder Singh, who looks after the day-to-day operations of the company and has more than a decade of experience in the same line of business. Long standing presence of the promoter in the industry has helped the company to build good relationships with both customers and suppliers.

Favorable location of operations:

The textile industry is well-established in Ludhiana and has close proximity to the Ludhiana-based consumer base for knitted fabrics. Furthermore, there is a well-established supplier base in the same place i.e. textile raw materials like yarns and fabric are easily accessible.

Comfortable debt protection metrics

The debt protection metrics of the company remained comfortable over the years, indicated by comfortable interest service coverage ratio (ISCR) at 2.32x in FY23 (PY:3.05x) whereas debt service coverage ratio (DSCR) remained satisfactory at 1.83x in FY23 as against 1.60x in FY22. Though there is some deterioration in debt protection metrics in FY23, it still remains in the comfortable range.

Long term relationships with customers and suppliers

The company has reputed clients in both the domestic and international markets and has a strong base of suppliers. Most of the clients have been involved with the company for more than a decade, and majority of the company's overseas customers are headquartered in Dubai and Kuwait.

B. Key Rating Weaknesses

Working capital intensive nature of operations

DSIPL's operations are working capital intensive as the raw material availability is seasonal. During this period the company has to procure raw material required till next season. The company has large working capital requirements which are reflected in an higher operating cycle of 185 days in FY23 (FY22: 259 days) due to elongated debtors and inventory period at 176 days and 74 days respectively in FY23.

Susceptibility of profitability to raw material price volatility

Like other textile businesses, the profitability of DSIPL is subject to fluctuations in the cost of cotton yarn, the primary raw material. The cotton yarn industry's profitability margins are highly correlated with fluctuations in raw cotton prices. The company does not have any long-term contracts with suppliers with regards to either quantity or price. However, it has several years of relationships. The cotton yarn and polyester yarn industry is fragmented and there is significant competition among the players in the industry due to which their bargaining power is limited. This restricts the players from fully passing on the input cost increases to customers or retaining any benefits of lower input costs. As a result, the profitability margins of the company are susceptible to the volatility in raw cotton prices. The company's EBITDA margin declined to 7.69% in FY23 as compared to 9.39% respectively in FY22.

Intense competition prevalent in the industry

The textile industry segment is characterized by high levels of fragmentation and low entry barriers across the value chain. The company faces stiff competition in the domestic market and from other upcoming players which could affect the profit margins to an extent.

Analytical Approach: For arriving at the ratings, IVR has analyzed DSIPL's credit profile by considering the standalone financial statements of the company.

Applicable Criteria:

- Rating Methodology for Manufacturing Companies
- Financial Ratios & Interpretation (Non-Financial Sector)
- Criteria for assigning rating outlooks
- Default recognition and Post – Default Curing Period

Liquidity – Adequate

The company's liquidity is adequate marked by expectation of sufficient cushion in cash accruals against its debt repayments. The company has gross cash accruals (GCA) of Rs 14.59 Crs in FY23 against fixed term obligations of Rs. 5.26 Crore. The company has current Ratio of 1.82x as on March 31, 2023. The unencumbered cash and bank balance of company stood at Rs. 0.38 Crores as on 31st March 2023. However, the average utilisation of fund-based limits stands high at ~96%. The surplus cash accruals provide a buffer to the working capital requirements.

About the Company
Davinder Sandhu Impex Private Limited (DSIPL) established in 1997 by taking over Davinder Sandhu and Company (DSC), which was a proprietorship firm engaged in manufacturing and export of Woolen garments, since 1993. DSIPL is engaged in the manufacturing and export of collared and polo-neck T-shirts since 2003. DSIPL has an in-house manufacturing unit of knitting (fabric), dyeing & finishing and garmenting in Ludhiana, Punjab.

Financials (Standalone):

(Rs. crore)

For the year ended*	31-03-2022	31-03-2023
	Audited	Audited
Total Operating Income	132.01	192.15
EBITDA	12.40	14.78
PAT	6.52	9.34
Total Debt	47.90	60.02
Tangible Net worth	87.27	96.20
EBITDA Margin (%)	9.39	7.69
PAT Margin (%)	4.75	4.63
Overall Gearing Ratio (x)	0.55	0.62

Financials as per Infomerics standards

Status of non-cooperation with previous CRA:
CARE rating has migrated the rating to Issuer Non-Cooperation category due to non-submission of information and lack of management cooperation vide press release dated 05 May 2023.

Any other information: Nil

Rating History for last three years:

S. No.	Name of Instrument/ Facilities	Current Rating (Year 2023-24)			Rating History for the past 3 years		
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2022-23	Date(s) & Rating(s) assigned in 2021-22	Date(s) & Rating(s) assigned in 2020-21
1.	TL-GECL	Long Term	11.00	IVR BB+ (Stable)	-	-	-

S. No.	Name of Instrument/ Facilities	Current Rating (Year 2023-24)			Rating History for the past 3 years		
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2022-23	Date(s) & Rating(s) assigned in 2021-22	Date(s) & Rating(s) assigned in 2020-21
				(IVR Double B Plus with Stable Outlook)			
2.	EPC/CC	Long Term/ Short Term	29.50	IVR BB+ (Stable) / IVR A4+ (IVR Double B Plus with Stable Outlook and IVR A Four Plus)	-	-	-
3.	Forward Contract	Short Term	1.00	IVR A4+ (IVR A Four Plus)	-	-	-

Name and Contact Details of the Group Head:

Name: Mr. Vipin Jindal
Tel: (011) 45579024
Email: vipin.jindal@infomerics.com

About Infomerics:

Infomerics Valuation and Rating Private Ltd (Infomerics) was founded in the year 1986 by a team of highly experienced finance professionals for research and risk evaluation. Infomerics commenced its activities as External Credit Assessment Institution after obtaining registration from Securities Exchange Board of India (SEBI) and accreditation from Reserve Bank of India (RBI).

Adhering to best international practices and maintaining high degree of ethics, the team of analysts at Infomerics deliver quality credit ratings. Infomerics evaluates wide range of debt instruments which helps corporates access to financial markets and provides investors credit ratings backed by in-depth research. The transparent, robust, and credible ratings have gained the confidence of investors and the banks.

Infomerics has a pan India presence with Head Office in Delhi and Corporate Office at Mumbai, with branches in major cities and representatives in several locations.

Infomerics also has international presence with credit rating operations in Nepal through its JV subsidiary.

For more information visit www.infomerics.com

Disclaimer: Infomerics ratings are based on information provided by the issuer on an 'as is where is' basis. Infomerics credit ratings are an opinion on the credit risk of the issue / issuer and not a recommendation to buy, hold or sell securities. Infomerics reserves the right to change or withdraw the credit ratings at any point in time. Infomerics ratings are opinions on financial statements based on information provided by the management and information obtained from sources believed by it to be accurate and reliable. The credit quality ratings are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. We, however, do not guarantee the accuracy, adequacy or completeness of any information, which we accepted and presumed to be free from misstatement, whether due to error or fraud. We are not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by us have paid a credit rating fee, based on the amount and type of bank facilities/instruments. In case of partnership/proprietary concerns/Association of Persons (AOPs), the rating assigned by Infomerics is based on the capital deployed by the partners/proprietor/ AOPs and the financial strength of the firm at present. The rating may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor/ AOPs in addition to the financial performance and other relevant factors.

Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Term Loan -GECL	-	-	December, 2028	11.00	IVR BB+ (Stable) (IVR Double B Plus with Stable Outlook)
CC/EPC	-	-	-	29.50	IVR BB+ (Stable) / IVR A4+ (IVR Double B Plus with Stable Outlook/IVR A Four Plus)
Forward Contract	-	-	-	1.00	IVR A4+ (IVR A Four Plus)

Annexure 2: List of companies considered for consolidated analysis: Not Applicable.

Annexure 3: Facility wise lender details:
https://www.infomerics.com/admin/prfiles/len-Davinder-Sandhu-apr24.pdf

Annexure 4: Detailed explanation of covenants of the rated instrument/facilities: Not Applicable

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