

Dynamic Designs Inc.

Brickwork Ratings downgrades the ratings for the Bank Loan Facilities of ₹. 20.57 crores of Dynamic Designs Inc.

Particulars

Facilities	Previous Amount (₹ Crs)	Present Amount Rated (₹ Crs)	Tenure	BWR Rating History (Sep, 2018)	Rating**
Fund Based	0.75	0.32	Long Term	BWR BB Stable Upgraded	BWR B+ Stable Downgraded
	20.00	20.00	Short Term	BWR A4+ Upgraded	BWR A4 Downgraded
Non-Fund Based	0.25	0.25			
Total	21.00	20.57	INR Twenty Crores and Fifty Seven Lakhs Only		

*Please refer to BWR website www.brickworkratings.com/ for definition of the ratings

** Details of Bank facilities/NCD/Bonds/Commercial Paper is provided in Annexure-I&II

RATING ACTION / OUTLOOK

BWR has downgraded the ratings to BWR B+/A4; with Stable: Outlook. The downgradation in ratings is on account of modest scale of operations and moderate profitability margins, high gearing levels, susceptibility of profitability to volatile cotton prices and intense competition in the textile industry, working capital intensive nature of operations, and occasional delays in servicing of external obligations. However, the ratings benefit from the rich experience of the partners, healthy relationship with suppliers as well as customers, and comfortable debt protection metrics.

The 'stable' outlook indicates a low likelihood of a rating change in the medium term. BWR expects that the company's performance is likely to be maintained in the medium term.

KEY RATING DRIVERS

Credit risks

- **Modest scale of operations and moderate profitability margins:** The scale of operations stood modest and has also declined marked by total operating revenue of INR 48.84 crores in FY 2019 as against INR 54.55 crores in FY 2018. The revenue is expected to remain modest in the medium term and is estimated to range between INR 50-55 crores. Further, the profitability margins are moderate as OPM and NPM were at 7.05% and 1.28% respectively in FY 2019. Although, the profitability margins are expected to improve in the medium term.
- **High gearing levels:** Due to the low tangible net worth of INR 4.86 crores in FY 2019, the gearing levels are high marked by Total Debt/TNW and TOL/TNW of 3.53x and 4.31x respectively in FY 2019. Although, it is estimated that the gearing will improve in the medium term.
- **Susceptibility of profitability to volatile cotton prices and Intense competition in the textile industry -** Similar to other textile companies, DDI's profitability remains exposed to volatility in the prices of cotton, the main raw material. The Company operates in a highly competitive textile industry, characterised by minimal product differentiation and fragmented nature. The intense competition constrains it from fully passing on any increase in raw material prices to its end customers, which may adversely impact its profitability.
- **Working capital intensity -** The firm has large working capital requirements, as reflected in the moderately high inventory holding and receivable days of over 148 days and 99 days respectively in FY 2019.
- **Occasional delays in servicing of external obligations:** The firm delays the payment of interest and the account with the bank has also appeared in SMA 0.

Credit Strengths

- **Rich experience of the partners:** The partners of the firm, Mr. Bhupinder Singh Sachdeva, Mr. Hardeep Singh Sachdeva carry rich experience of over two decades in the industry which helps the firm to perform in all phases of the business cycle.
- **Healthy relationship with suppliers as well as customers:** The firm enjoys healthy relationship of a decade with its suppliers in India and customers in the United Kingdom, other European countries and Israel.
- **Comfortable debt protection metrics:** The coverage indicators are comfortable marked by DSCR and ISCR of 1.45x and 2.13x respectively in FY 2019 as against 1.44x and 1.64x respectively in FY 2018.

ANALYTICAL APPROACH AND APPLICABLE RATING CRITERIA

For arriving at its ratings, BWR has considered the standalone financials of the firm. BWR has applied its rating methodology as detailed in the Rating Criteria (hyperlinks provided at the end of this rationale)

RATING SENSITIVITIES

Going forward, the ability of the firm to improve the scale of operations and profitability margins, improve gearing levels by infusing additional capital, and efficient utilization of the working capital limits will be the key rating sensitivities.

Positive: Any substantial increase in revenue, profitability and improvement in overall financial risk profile.

Negative: Any steep decline in sales and profitability margins and degradation in the overall financial risk profile.

LIQUIDITY POSITION

The firm's liquidity position is repressed by modest cash and cash equivalents of INR 0.11 crores in FY 2019. The total amount of fund-based working capital limit of INR 20.00 crores has been fully utilized which indicates tight liquidity position of the firm. The current ratio and the quick ratio of 1.20x and 0.42x respectively in FY 2019 are inadequate. Hence, the overall liquidity position of the firm is weak.

FIRM'S PROFILE

Established in 2008, Dynamic Designs Inc is a Gurugram-based partnership firm engaged in manufacturing and exporting of women, men, and kids readymade garments. The firm's plant in Gurugram has an installed capacity of 8000 garment pieces per day and the capacity utilization was approximately 80% in FY 2019. The firm mainly exports the garments to the United Kingdom, other European countries, and Israel. The firm is managed by Mr. Bhupinder Singh Sachdeva, Mr. Hardeep Singh Sachdeva, and Mr. Ramandeep Singh Sachdeva.

KEY FINANCIAL INDICATORS (in ₹ Cr)

Key Parameters	Units	FY 19	FY 18
Result Type		Audited	Audited
Operating Revenue	₹ Crores	48.84	54.55
EBITDA	₹ Crores	3.44	3.52

PAT	₹ Crores	0.62	0.73
Tangible Net Worth (TNW)	₹ Crores	4.86	5.14
TOL/TNW	Times	4.31	7.48
Current Ratio	Times	1.20	1.16

KEY COVENANTS OF THE INSTRUMENT/FACILITY RATED: NA

NON-COOPERATION WITH PREVIOUS RATING AGENCY IF ANY: NA

RATING HISTORY

Facilities	Current Rating			Rating History		
	Tenure (Long Term/ Short Term)	Amount (₹ Cr)	Rating	Sep, 2018	2017	2016
Fund Based	Long Term	0.32	BWR B+ Stable Downgraded	BWR BB Stable Upgraded	BWR BB- Stable Assigned	-
	Short Term	20.00	BWR A4 Downgraded	BWR A4+ Upgraded	BWR A4 Reaffirmed	-
Non-Fund Based		0.25				
Total		20.57	INR Twenty Crores and Fifty Seven Lakhs Only			

COMPLEXITY LEVELS OF THE INSTRUMENTS

For more information, visit www.brickworkratings.com/download/ComplexityLevels.pdf

Hyperlink/Reference to applicable Criteria

- [General Criteria](#)
- [Approach to Financial Ratios](#)
- [Manufacturing Entities](#)
- [Short Term Debt](#)

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ANNEXURE I

Details of Bank Facilities rated by BWR

Sl. No.	Name of the Bank	Type of Facilities	Long Term (₹ Cr)	Short Term (₹ Cr)	Total (₹ Cr)
1.	Canara Bank	Term Loan (O/s)*	0.32	-	0.32
2.		Packing Credit/FDB	-	20.00	20.00
3.		Bank Guarantee	-	0.25	0.25
TOTAL					20.57

Total Rupees Twenty Crores and Fifty Seven Lakhs Only.

* O/s out of the sanction of INR 1.60 crores.



For print and digital media

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DISCLAIMER

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