DAMODAR INDUSTRIES LIMITED

Date: November 09th, 2023

To,
The Manager-CRD
BSE Limited
Phiroze Jeejeebhoy Towers,
Dalal Street, Fort
Mumbai-400001
Ref.: Script Code 521220

Subject : Credit Rating Additional Details Required for Corporate Announcement filed under Regulation 30 of SEBI (LODR) Regulations, 2015.

Dear Sir/Madam,

With Respect to BSE Email Dated 07 June 2023 we are replying the same with Additional Details Required by BSE in **Annexure I**

Kindly take the same on your record.

Thanking You,
Yours faithfully,

FOR **Damodar Industries Limited**

INDRAJIT VILAS KANASE
Digitally signed by INDRAJIT VILAS KANASE
Date: 2023.11.09 16:29:00 +05'30'

Indrajit Kanase
Company Secretary

Encl- Annexure I

Regd.Office : 19/22 & 27/30, Madhu Estate, Pandurang Budhkar Marg, Worli, Mumbai - 400 013.
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Factory : Survey No. 265 / 10 / 1, Demni Road, Dadra Village, **D.& N. H. (U. T.)** - 396 230 **Tel.:** 0260 3253390
: T- 26, MIDC Amravati, Addl. Indl. Area, MIDC, Textile Park, **Nandgaon Peth**, Maharashtra - 444 901.
Email : cs@damodargroup.com | **Website** : www.damodargroup.com | **GST No.** : 27AAACD3850G1ZV | **CIN** : L17110MH1987PLC045575

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Annexure-I

Detailed Rationale

CRISIL Ratings has downgraded its ratings on the bank facilities and fixed deposit of Damodar Industries Limited (DIL) to 'CRISIL BB+/Stable/CRISIL A4+' from 'CRISIL BBB-/Negative/CRISIL A3'.

The downgrade reflects moderation in the company's business risk profile and consequent stretched liquidity position marked by highly utilized bank limits and tightly matched cash accruals to repayment obligations. With large repayments obligations in the near to medium term, adequate cushion in net cash accruals is very sensitive to a minor deterioration of its profitability. While company has prepaid part of repayment obligation in Q1 fiscal 2024 from subsidy receipts, sale of assets and infusion of unsecured loans, future receipts of subsidy and expected improvement in operating margin will remain key monitorable.

The ratings reflect the established extensive experience of the promoters and its efficient working capital management. These strengths are partially offset by susceptibility to volatility in raw material prices and average capital structure and debt protection metrics.

Analytical Approach

Unsecured loan of Rs 21.1 crore has been treated as neither debt nor equity to the extent of Rs 15.8 crore due to track record of non-withdrawal and it is expected to remain in the business over the medium term. Rest is treated as debt.

Key Rating Drivers & Detailed Description

Strengths:

Extensive Experience of the Promoters: Owing to the experience of over three decades in the textile business the promoters have developed a deep understanding of the industry and have established strong relationships with its customers and suppliers and better understanding of industry dynamics. The company is as established diversified geography profile and customer base. The company caters to wide customer base, both in India and Overseas, with revenue from the export market gradually increasing. Moderate scale of operations provides it an operating flexibility in an intensely competitive industry. CRISIL Ratings believes that the business risk profile of the company will continue to benefit the company's business risk profile over the medium term.

Moderately efficient working capital management: The working capital is efficiently managed, as reflected in gross current assets (GCAs) of 92-130 days for the three fiscals through 2023 and at 124 days in fiscal 2023, driven by receivables of 41-52 days and inventory of 38-64 days. Receivables are expected to improve over the medium term, which remains a key rating sensitivity.

Weakness:

Susceptibility to volatility in raw material prices: The company remains exposed to risks related to fluctuations in raw material prices, as prices of cotton, the key raw material as well as polyester are volatile and some are linked to crude oil prices which are crude oil derivatives. The volatility in raw material prices impacts the operating margin as reflected in the volatile operating margins ranging from 6.3-8.8% in the last three fiscals ended at fiscal 2023. The operating margin are still under pressure at 3.74% in Q1 of fiscal 2024 due to lower demand and decline in prices of cotton. Volatile

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input prices also led to volatile realizations thereby affecting the overall revenue earned by the players. However, the risk of volatile input prices is partially mitigated by moderate inventory holding by the company. Improvement in the operating margins remains a key monitorable over medium term.

Average capital structure and debt protection metrics:

Adjusted gearing and TOLTNW ratio were at 2.36 and 2.14 times, respectively, as on March 31, 2023. The leverage is expected to improve over the medium term with steady accretion to reserves given the expected increase in revenue. Debt protection metrics were average because of modest profit and sizeable interest outgo. Interest coverage and net cash accrual to total debt ratios were at 1.8 times and 0.06 time, respectively, in fiscal 2023, and are expected to improve significantly over the medium term.

Liquidity: Stretched

Bank limit utilization averaged at 78.2% on average for the 6 months through May 23 with peak utilization at around 94%. Cash accrual, expected over Rs 31 crore per annum in fiscals 2024, against yearly term debt obligation of around Rs 29 crore. The company has prepaid Rs 6 crore of debt obligation in Q1 of fiscal 2024 from subsidiary received from Maharashtra state of Rs 5.5 crore and additional USL of Rs 0.50 crore infused by promoters. USL from promoter is Rs 21.1 crore as on Mar 31, 2023 and promoters will likely extend support through equity and unsecured loans to meet working capital requirement and debt obligation. Current ratio was adequate at 1.28 times as on March 31, 2023. The company has no major capex plans over the medium term.

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