

March 23, 2023

**BSE Limited,  
Phiroze Jeejeebhoy Towers,  
Dalal Street  
Mumbai-400 001  
Scrip Code: 542729**

**National Stock Exchange of India Limited  
Exchange Plaza, C-1, Block G  
Bandra Kurla Complex, Bandra East  
Mumbai, Maharashtra – 400 051  
Symbol: DCMNVL**

Dear Sir/ Madam,

**Sub: Intimation of revision in credit rating pursuant to Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015**

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Pursuant to Regulation 30 of SEBI (Listing Obligations & Disclosure Requirements) Regulations, 2015 read with Schedule III of Part A, we hereby inform you that the rating agency CRISIL Limited, revised its ratings on the bank facilities of the Company as mentioned below:

<b>Total Bank Loan Facilities Rated</b>	Rs. 210 Crore
<b>Long Term Rating</b>	CRISIL BBB/Stable (Downgraded from 'CRISIL BBB+/Stable')
<b>Short term Rating</b>	CRISIL A3+ (Downgraded from 'CRISIL A2')

Enclosed herewith the press release issued by the rating agency CRISIL Limited.

We request you to take the above on record and the same be treated as compliance under the provisions of the SEBI Listing Regulations and any other provisions as applicable in this regard.

Thanking you,  
Yours faithfully,

**For DCM Nouvelle Limited**

**Mohd Sagir  
Company Secretary & Compliance Officer  
ICSI Membership No: F11061**

Encl: a/a



## Rating Rationale

March 21, 2023 | Mumbai

### DCM Nouvelle Limited

Ratings downgraded to 'CRISIL BBB / Stable / CRISIL A3+ '

#### Rating Action

<b>Total Bank Loan Facilities Rated</b>	<b>Rs.210 Crore</b>
<b>Long Term Rating</b>	<b>CRISIL BBB/Stable (Downgraded from 'CRISIL BBB+ / Stable')</b>
<b>Short Term Rating</b>	<b>CRISIL A3+ (Downgraded from 'CRISIL A2 ')</b>

*Note: None of the Directors on CRISIL Ratings Limited's Board are members of rating committee and thus do not participate in discussion or assignment of any ratings.*

*The Board of Directors also does not discuss any ratings at its meetings.*

*1 crore = 10 million*

*Refer to Annexure for Details of Instruments & Bank Facilities*

#### Detailed Rationale

CRISIL Ratings has downgraded its ratings on the bank facilities of DCM Nouvelle Limited (DNL) to '**CRISIL BBB/Stable /CRISIL A3+**' from CRISIL BBB+/Stable/CRISIL A2.

The downgrade reflects weakening of business risk profile of the company as due to moderation in cotton-yarn spread, operating profitability during April-Dec in the ongoing fiscal declined to 3.5%. Though operating profitability is expected to improve in last quarter of the fiscal and thereafter, its steady improvement, amid volatility related to cotton-yarn spread, will remain a key monitorable. Nevertheless, the operating profitability for fy23 shall half to around 5-6%, as against 11-12% estimated previously, hence leading to moderation in debt protection indicators too. Business risk profile remains partly aided by company's established market position and healthy scalability, estimated at Rs 780-800 crore for fy23; around Rs 630 crore reported till Dec-22.

Financial risk profile, especially liquidity, remains supported by pre-payment of entire long-term debt during fy23, cushion available in bank lines and sizeable network aiding the capital structure. Absence of sizeable debt funded capital expenditure over the medium term, and expected business revival, will further aid the financial risk profile over the medium term as well.

The ratings continue to reflect the extensive experience of the promoter in the cotton industry, advantageous location of the unit, and comfortable financial risk profile. These strengths are partially offset by vulnerability to fluctuations in raw material prices and exposure to demand risks in key operating countries.



### **Analytical Approach**

CRISIL Ratings has combined the business and financial risk profiles of DNL and its subsidiary, DCM Nouvelle Specialty Chemicals Ltd (DNS), in which DNL holds 76% equity stake.

*Please refer Annexure - List of Entities Consolidated, which captures the list of entities considered and their analytical treatment of consolidation.*

### **Key Rating Drivers & Detailed Description**

#### **Strengths:**

#### **Established position in the cotton industry and strong relationships with customers**

The promoter family has been operating the textiles unit since 1991, which has enabled them to understand market dynamics and establish healthy relationships with customers and suppliers. The company exports to China, Bangladesh, Portugal, Mauritius and Singapore. The company has already achieved revenue of around Rs ~630 crores till third quarter of fiscal 2023, despite the lower demand from international market due to the Russia-Ukraine war and other geopolitical factors. The company has been able to compensate the lost sales with the domestic sales as it has well established customer base in India. In the current quarter, export sales are likely to contribute 50-55% (in line with previous fiscals) to total sales. Established market position and healthy clientele would continue to aid business risk profile over the medium term as well.

#### **Advantageous location of the unit**

Manufacturing facility is in Hissar, Haryana, which is a major cotton-growing belt. DNL procures majority of its raw material requirement from local traders and ginners, reducing logistics cost and ensuring timely availability of raw materials. Proximity to the customer and suppliers, assuring regular order flow, will continue to aid the business risk profile of DNL over the medium term too.

#### **Comfortable financial risk profile:**

The financial risk profile of DNS is comfortable as indicated by low expected total outstanding liabilities to adjusted net worth of 0.9-1 time supported by a large network of Rs 300-320 crores expected as on March 31, 2023. Debt protection metrics are also likely to be comfortable, with interest coverage ratio of 4.8-5.0 times in fiscal 2023; however, net cash accrual to adjusted debt (NCAAD) ratio is likely to be weak at 0.13 time on account of operating losses in the second and third quarters of fy23. However, the NCAAD ratio is expected to improve to 0.25-0.29 time over the medium term. Absence of sizeable debt funded capital expenditure over the medium term, and expected business revival, will further aid the financial risk profile over the medium term.

#### **Weakness:**

#### **Vulnerability to fluctuations in raw material prices impacting operating margin**

Since cotton is an agricultural commodity, its availability depends on monsoon. Furthermore, government interventions and fluctuations in global cotton output may result in sharp movement in cotton prices, thereby impacting the profitability of spinning mills. On account adverse market condition leading to moderation in cotton-yarn spread, operating profitability during April-Dec in the ongoing fiscal declined to 3.5%. Though operating profitability is expected to improve in last quarter of the fiscal and thereafter, its steady improvement, amid volatility related to cotton-yarn spread, will remain a key monitorable. Nevertheless, the operating profitability for fy23 shall half to around 5-6%, as against 11-12% estimated previously. Any further moderation in the same, leading to weakening to debt protection metrics will remain a key rating sensitivity factor.

#### **Exposure to demand risks**

Exports account for 50-60% of total sales, majority of which are to Europe, China and Bangladesh. Bangladesh is one of the largest exporters of textiles in the world, and any economic disturbance there could adversely affect the business risk profile of DNL. In the current quarter, it is expected the company will be able to record export sales contribution of around 50-55% (in line with the previous years) with the upliftment of lockdown in China and situations getting stabilized in Europe resulting revived demand. Although, the lower demand from international market due to the Russia-Ukraine war and other geopolitical factors was compensated with the domestic sales as it has well established customer base in India, this resulted in lower profitability, hence, However, the sustainability of demand from overseas market will remain a key monitorable over the medium term.

#### **Liquidity: Adequate**

Bank limit utilisation was moderate at 49% on average for the 12 months through December 2022. Of the sanctioned term loan of Rs ~131 crore for the planned capex of Rs ~161 crore, only Rs ~68 crore has been availed till date and is running under moratorium. Cash accrual, expected at Rs 59-60 crore for fiscal 2024 and Rs 66-68 crore for fiscal 2025, will sufficiently cover yearly term debt obligation of Rs 25-28 crore over the medium term. The surplus will cushion liquidity. Current ratio is expected to remain healthy at 1.7-1.8 times as on March 31, 2023.

#### **Outlook Stable**

DNL will continue to benefit from its established market position in the cotton industry, strong relationships with customers and strategic location of the plant.

#### **Rating Sensitivity factors**

##### **Upward factors**

- \* Significant and steady increase in volumetric sales and sustaining operating margin at over 10-12%
- \* Timely completion of capex and its stabilisation thereafter
- \* Efficient working capital management leading to lower dependence on external debt and improvement in return on capital employed

##### **Downward factors**

- \* Decline in revenue and profitability leading to net cash accrual under Rs 25-30 crore
- \* Stretched working capital cycle or more than expected debt funded capex weakening financial risk profile and liquidity

#### **About the Group**

DNL is a Hissar-based cotton yarn manufacturer with spindle capacity of 115,000. Its textile unit has been operational since 1991. Till March 31, 2019, the unit was part of DCM Ltd, post which it was demerged into DNL through a National Company Law Tribunal order.

DNL is listed on National Stock Exchange and Bombay Stock Exchange. Mr Hemant Bharat Ram is looking after daily operations.

DCM Nouvelle Specialty Chemicals Ltd has been recently incorporated with 76% stake of DNL and 24% of Mr Hemant Bharat Ram. The company is incorporated with the intention of vertical expansion of business. Since the company is currently in the Research and Development phase where the product range/specification of the company is yet to be decided, no external debt funding has been availed by the company.

#### **Key Financial Indicators**

As on / for the period ended March 31		2022	2021
Operating income	Rs crore	822.15	520.15



<b>Reported profit after tax (PAT)</b>	<b>Rs crore</b>	<b>122.79</b>	<b>30.51</b>
<b>PAT margin</b>	<b>%</b>	<b>13.49</b>	<b>5.42</b>
<b>Adjusted debt/adjusted networkth</b>	<b>Times</b>	<b>0.51</b>	<b>0.90</b>
<b>Interest coverage</b>	<b>Times</b>	<b>29.55</b>	<b>7.69</b>

**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](http://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 level	Rating assigned with outlook
NA	Cash credit	NA	NA	NA	30	NA	CRISIL BBB/Stable
NA	Pre-shipment credit	NA	NA	NA	52	NA	CRISIL A3+
NA	Post shipment credit	NA	NA	NA	70	NA	CRISIL A3+
NA	Long-term loan	NA	NA	Jan-28	48	NA	CRISIL BBB/Stable
NA	Inland/Import Letter of Credit	NA	NA	NA	8	NA	CRISIL A3+
NA	Letter Of Guarantee	NA	NA	NA	2	NA	CRISIL A3+

**Annexure – List of entities consolidated**

Names of Entities Consolidated	Extent of Consolidation	Rationale for Consolidation
DCM Nouvelle Specialty Chemicals Ltd	Full consolidation	Majority stake held by DNL

**Annexure - Rating History for last 3 Years**

Instrument	Type	Current		2023 (History)		2022		2021		2020		Start of 2020
		Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating

Fund Based Facilities	ST/LT	200.0	CRISIL A3+ / CRISIL BBB/Stable	--	26-08-22	CRISIL BBB+/Stable / CRISIL A2	19-08-21	CRISIL A3+ / CRISIL BBB/Positive	27-03-20	CRISIL A3+ / CRISIL BBB/Stable	--
			--	--		--	03-03-21	CRISIL A3+ / CRISIL BBB/Stable		--	--
Non-Fund Based Facilities	ST	10.0	CRISIL A3+	--	26-08-22	CRISIL A2	19-08-21	CRISIL A3+	27-03-20	CRISIL A3+	--
			--	--		--	03-03-21	CRISIL A3+		--	--

All amounts are in Rs.Cr.

#### Annexure - Details of Bank Lenders & Facilities

Facility	Amount (Rs.Crore)	Name of Lender	Rating
Cash Credit	30	Punjab National Bank	CRISIL BBB/Stable
Inland/Import Letter of Credit	8	Punjab National Bank	CRISIL A3+
Letter Of Guarantee	2	Punjab National Bank	CRISIL A3+
Long Term Loan	48	Punjab National Bank	CRISIL BBB/Stable
Post Shipment Credit	70	Punjab National Bank	CRISIL A3+
Pre Shipment Credit	52	Punjab National Bank	CRISIL A3+

This Annexure has been updated on 21-Mar-2023 in line with the lender-wise facility details as on 23-Feb-2023 received from the rated entity

#### Criteria Details

[Links to related criteria](#)

[CRISILs Approach to Financial Ratios](#)

[CRISILs Bank Loan Ratings - process, scale and default recognition](#)

[Rating Criteria for Cotton Textile Industry](#)

[CRISILs Approach to Recognising Default](#)

[CRISILs Criteria for Consolidation](#)

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