

Press Release

06 March, 2017

Shreebhav Polyknits Private Limited

Rating Upgraded & Assigned

Total Bank Facilities Rated *	Rs.27.08 Cr (Enhancement from Rs.25.28 Cr)
Long Term Rating	SMERA BBB-/Stable
Short Term Rating	SMERA A3

*Refer Annexure for details

Rating Rationale

SMERA has upgraded long-term rating to 'SMERA BBB-' (read as SMERA BBB minus) and short term rating of 'SMERA A3' (read as SMERA A three) from 'SMERA D' (read as SMERA D) on the Rs. 25.28 Cr bank facilities and assigned the rating of 'SMERA BBB-' (read as SMERA triple B minus) on the Rs.1.80 Cr bank facilities of Shreebhav Polyknits Private Limited. The outlook is 'Stable'.

SPPL is a Surat-based company incorporated in 2005 by Mr. Sanjay Agarwal and Mrs. Shalini Agarwal. The company manufactures twisted yarn and fabrics and also undertakes job work related to embroidery.

Key Rating Drivers

Strengths

• Healthy revenue growth

SPPL's operating income grew at a compounded annual growth rate (CAGR) of 28.39 percent from FY2012 to FY2016 on account of increase in order book value. The operating income stood at Rs.82.85 cr in FY2016 as compared to Rs.79.04 cr in FY2015. The company undertook capital expansion in FY2015-16 to focus on value added products. For 9MFY2017 (Provisionals), the operating income stood at Rs.63.89 cr.

• Stable operating profitability

SPPL's operating profitability remained stable in FY2016 as compared to the previous year. The EBIDTA margins stood at 8.53 percent as compared to 8.14 percent in FY2015. The PAT margins are thin and stood at 1.07 percent in FY2016 as compared to 1.12 percent in FY2015.

• Above average financial risk profile

SPPL's financial risk profile is above average marked by high net worth of Rs.22.51 cr as on 31 March 2016. The gearing stood at 1.15 times as on 31 March 2016 as compared to 1.18 times as on 31 March 2015. The ICR stood at 2.54 times in FY2016 as compared to 2.64 times in FY2015. The DSCR stood at 1.15 times in FY2016 as compared to 1.17 times in FY2015.

Weaknesses

- **Working capital intensive operations**

SPPL's operations are working capital intensive reflected in the high gross current assets (GCAs) of 189 days on account of high debtor level of 150 days. Further, the liquidity profile is stretched as the company utilises around 90 per cent of its working capital.

- **Competitive and fragmented industry**

The company is exposed to intense competition in the textile industry.

- **Volatility in raw material prices**

The main raw material for SPPL is partially oriented yarn (POY), the prices of which are linked to crude oil prices, exposing the company to price risks associated with volatility in crude oil prices.

Analytical Approach

SMERA has considered the standalone financial and business risk profiles of SPPL to arrive at the ratings.

Outlook: Stable

SMERA believes that SPPL will continue to benefit from the experienced management. The outlook may be revised to Positive if the company displays good scalability in operations and is able to maintain profitability. Conversely, the outlook may be revised to Negative if the company registers decline in revenue or profitability.

About the Rated Entity - Key Financials

As per FY2015-16, SPPL reported net profit after tax (PAT) of Rs.0.89 cr on operating income of Rs.82.85 cr as against PAT of Rs.0.88 cr on operating income of Rs.79.04 cr in the previous year.

Status of non-cooperation with previous CRA (if applicable)

None

Any other information

SMERA had downgraded the rating on account of the client's inadvertent submission of erroneous information regarding servicing of debt obligations. Subsequently, SMERA contacted the bank and confirmed that there were no delays in repayment of term loans. The client has also submitted correct information about absence of delays in servicing of debt. Therefore, SMERA has reinstated the rating taking into account the timely payment of term loan obligations and the operating performance of SPPL.

Applicable Criteria

- Default Recognition - <https://www.smera.in/criteria-default.htm>
- Manufacturing Entities - <https://www.smera.in/criteria-manufacturing.htm>
- Financial Ratios And Adjustments - <https://www.smera.in/criteria-fin-ratios.htm>

Note on complexity levels of the rated instrument

<https://www.smera.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
05-Dec-2016	Working Capital Limit	Long Term	INR 13.5	SMERA D
	Term Loan - I	Long Term	INR 7.7	SMERA D
	Term Loan - II	Long Term	INR 3.6	SMERA D
	Bank Guarantee	Short Term	INR 0.48	SMERA D
11-Sep-2015	Working Capital Limit	Long Term	INR 13.5	SMERA BBB- / Stable
	Term Loan - I	Long Term	INR 7.7	SMERA BBB- / Stable
	Term Loan - II	Long Term	INR 3.6	SMERA BBB- / Stable
	Bank Guarantee	Short Term	INR 0.48	SMERA A3

*Annexure - Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Working Capital Limit	Not Applicable	Not Applicable	Not Applicable	13.50	SMERA BBB- / Stable
Term loans	Not Applicable	Not Applicable	31-Mar-2021	7.70	SMERA BBB- / Stable
Term loans	Not Applicable	Not Applicable	30-Sep-2020	3.60	SMERA BBB- / Stable
Term loans	Not Applicable	Not Applicable	31-Mar-2018	1.80	SMERA BBB- / Stable
Bank guarantee	Not Applicable	Not Applicable	Not Applicable	0.73	SMERA A3

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ABOUT SMERA

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