

Salona Cotspin Limited: Assigned

Facilities	Amount (Rs. Crore)	Ratings/Outlook
Cash Credit	22.16	SMERA BBB-/Stable (Assigned)
Term Loan	6.95	SMERA BBB-/Stable (Assigned)
Foreign Bill Purchasing	5.00	SMERA A3 (Assigned)
Letter of Guarantee	0.41	SMERA A3 (Assigned)

SMERA has assigned long term rating of '**SMERA BBB-**' (**read as SMERA triple B minus**) and short term rating of '**SMERA A3**' (**read as SMERA A three**) to the Rs.34.52 crore bank facilities of Salona Cotspin Limited (SCL). The outlook is '**Stable**'.

The ratings derive comfort from the company's established track record of operations, experienced management and moderate financial risk profile. However, the ratings are constrained by the moderate revenue growth, declining operating profit margins, working capital intensive operations and susceptibility of profit margins to volatility in forex rates.

SCL, incorporated in 1996, is engaged in the manufacture of cotton yarn and knitted fabrics. The company is headed by Mr. Shyamlal Agarwala (Managing Director), who possesses over four decades of experience in the textile industry. The financial risk profile of SCL is moderate marked by gearing of 1.24 times as on March 31, 2016 (1.12 times as on March 31, 2015). The company's debt protection metrics is moderate with interest coverage ratio at 3.19 times in FY2015-16 as against 3.30 in FY2014-15. The DSCR stood at 1.28 times for FY2015-16 (1.30 times in FY2014-15). SCL has 24,336 spindles and operates at 98 per cent capacity. Thus, any further debt funded capex undertaken by the company is likely to put pressure on the debt protection metrics.

SCL has registered moderate compounded annual growth rate (CAGR) of 3.76 per cent from FY2012-13 to FY2015-16. The revenues marginally declined from Rs.100.25 crore in FY2014-15 to Rs.102.68 crore in FY2015-16 on the back of declining cotton yarn prices. Further, as per April-September 2017 (Provisional), the revenues stand at Rs.53.00 crore. The margins of the company have remained under pressure owing to increase in raw cotton prices. The EBIDTA margins stood at 8.69 per cent in FY2015-16 compared to 9.38 per cent in FY2014-15.

The group's operations are working capital intensive as reflected in the high gross current assets of 155 days in FY2015-16 (increased from 110 days in FY2014-15). This is on account of the high inventory holding of around 108 days. The debtor days are in the range of 30 – 50 days. SCL is also exposed to foreign exchange fluctuation risk as it generates 40 percent revenue from exports. SCL exports yarn and fabrics to several countries including Sri Lanka, Bangladesh, Hong Kong directly as also through merchants.

Rating Sensitivity Factors

- Improving scale of operations
- Maintaining stable margins
- Fluctuations in raw material prices
- Debt funded capex

Outlook-Stable

SMERA believes that SCL will maintain a stable outlook and benefit over the medium term on account of the company's established market position and extensive experience of its promoters. The outlook may be revised to 'Positive' if the company registers substantial increase in its profitability margins supported by healthy revenue growth or significant improvement in its capital structure as a result of equity infusion by promoters. Conversely, the outlook may be revised to 'Negative' in case of sharp decline in profitability margins or significant deterioration in the financial risk profile due to higher than expected debt-funded capex or elongated working capital cycle.

Criteria to arrive at the ratings:

- Manufacturing entities

About the Company

SCL, incorporated in 1996, is a Coimbatore-based company is engaged in the manufacture and export of cotton yarn and knitted fabrics to Sri Lanka, Bangladesh, Hong Kong, South America among others. The company, headed by Mr Shyamlal Agarwala, has an installed capacity of 24,336 spindles.

For FY2015-16, the company registered profit after tax (PAT) of Rs.2.27 crore on operating income of Rs.100.25 crore as against PAT of Rs.2.11 crore on operating income of Rs.102.68 crore in the previous year.

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ABOUT SMERA

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