

Press Release
Salona Cotspin Limited

1 February, 2018

Rating Reaffirmed



| | |
|-------------------------------------|---|
| Total Bank Facilities Rated* | Rs.56.23 Cr* (enhanced from Rs. 34.52 crore) |
| Long Term Rating | SMERA BBB-/Stable (Reaffirmed) |
| Short Term Rating | SMERA A3 (Reaffirmed) |

**Refer Annexure for details*

Rating Rationale

SMERA has reaffirmed the long term rating of **'SMERA BBB-' (read as SMERA triple B minus)** and short term rating of **'SMERA A3' (read as SMERA A three)** on the Rs.29.93 crore bank facilities of Salona Cotspin Limited (SCL). SMERA has also assigned rating of **'SMERA BBB-' (read as SMERA triple B minus)** and short term rating of **'SMERA A3' (read as SMERA A three)** on the Rs.26.30 crore bank facilities. The outlook is **'Stable'**.

SCL was incorporated in 1996 by Mr. Shyamlal Agarwala (Managing Director). The company is engaged in the manufacturing of cotton yarn and knitted fabrics at Erode (Tamil Nadu) and has installed capacity of 24336 spindles.

List of key rating drivers and their detailed description

Experienced management

The Directors, Mr. Shyamlal Agarwala (Managing Director) and Mr. Manoj Kumar Jhajharia (Joint Managing Director) have more than four decades of experience in the textile industry. Both were engaged in the trading of cotton yarn from 1986. The day-to-day operations of the company are led by Mr Agarwala and Mr Jhajharia. Further Mr. Shymmlal Agarwala was the president of Coimbatore Yarn Merchants & Brokers Association (CYMBA) while Mr. Manoj Kumar Jhajharia has been the member of Coimbatore Stock Exchange Limited (CSX).

Moderate financial risk profile

The financial risk profile of SCL is marked by healthy network, moderate gearing and comfortable debt protection matrices. The net worth stood at Rs.27.85 crore as on 31 March, 2017 as against Rs.24.56 crore in the previous year. The gearing stood at 1.27 times as on 31 March, 2017 compared to 1.24 times as on 31 March, 2016. The total debt includes unsecured loans to the tune of Rs.2.37 crore which are inter-corporate borrowings, term loan of Rs.3.16 crore and short term borrowings of Rs.27.11 crore. The Interest Coverage

Ratio(ICR) stood at 3.78 times for FY2017 and 3.19 times for FY2016. The DSCR stood at 1.64 times for FY2017 compared to 1.28 times for FY2016.

Moderate revenue growth rate

The revenue grew at a Compounded Annual Growth Rate (CAGR) of 5.68 per cent for the period FY2015-17. The firm is engaged in the manufacturing of cotton yarn and knitted fabrics and caters to the needs of hosiery yarn/knitted garments industries. The company generates 40 per cent revenue from the export market and the rest (60 per cent) from the domestic market. As informed by the management, SCL booked revenue of Rs.63.00 crore for April - November 2017 (Provisional) and expects to book revenue of Rs.123.00 crore in FY2018.

Weaknesses

Declining operating profitability

The operating margins declined to 7.09 per cent in FY2017 from 8.69 per cent in FY2016 on account of increase in employee cost apart from other manufacturing and selling expenses. The PAT margins stood at 2.76 per cent in FY2017 and 2.26 per cent in FY2016. However, the EBIDTA margins are expected to improve going forward on account of manufacturing of higher value addition products such as garments and inners for girls as also western casual wear.

Working capital intensive operations

The operations are working capital intensive as evident from the high Gross Current Assets (GCAs) of 162. This is on account of increase in debtor days to 66 in FY2017 from 47 days in the previous year. Further, the other current assets comprise loans and advances of Rs.2.68 crore as on 31 March, 2017 as against Rs.1.65 crore in the previous year. The same increased to Rs.4.99 crore as on 31 March, 2017 from Rs.3.96 crore in the previous year.

Foreign exchange fluctuation risk

SCL is exposed to foreign exchange fluctuation risk as it generates 40 per cent of its revenue from exports. The company makes direct and merchant sales for export of yarn and fabrics to Sri Lanka, Bangladesh, Hong Kong, South Korea and other countries. The profit margins are thus exposed to risk of fluctuations in forex rates in the absence of significant hedging policy.

Analytical approach: SMERA has considered the standalone business and financial risk profiles of the company.

Applicable Criteria

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

Outlook: Stable

SMERA believes that SCL will maintain a Stable outlook and continue to benefit over the medium term on account of its established market position and extensive experience of its promoters. The outlook may be revised to 'Positive' in case of substantial increase in profitability margins supported by healthy revenue growth. 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 debt-funded capital expenditure or elongated working capital cycle.

About the Rated Entity – Key Financials

| Particulars | Unit | FY17 (Actual) | FY16 (Actual) | FY15 (Actual) |
|-------------------------------|---------|---------------|---------------|---------------|
| Operating Income | Rs. Cr. | 121.19 | 100.25 | 102.68 |
| EBITDA | Rs. Cr. | 8.59 | 8.71 | 9.63 |
| PAT | Rs. Cr. | 3.34 | 2.27 | 2.11 |
| EBITDA Margin | (%) | 7.09 | 8.69 | 9.38 |
| PAT Margin | (%) | 2.76 | 2.26 | 2.05 |
| ROCE | (%) | 8.35 | 10.17 | 10.37 |
| Total Debt/Tangible Net Worth | Times | 1.27 | 1.24 | 1.12 |
| PBDIT/Interest | Times | 3.78 | 3.19 | 3.30 |
| Gross Current Assets | Days | 162 | 165 | 115 |

Rating History (Upto last three years)

| Date | Name of Instrument / Facilities | Term | Amount (Rs. Crore) | Ratings/Outlook |
|-------------|---------------------------------|------------|--------------------|------------------------------|
| 2-Nov, 2016 | Cash Credit* | Long Term | 22.16 | SMERA BBB-/Stable (Assigned) |
| | Term Loan | Long Term | 6.95 | SMERA BBB-/Stable (Assigned) |
| | Foreign Bill Purchasing* | Short Term | 5.00 | SMERA A3 (Assigned) |
| | Letter of Guarantee | Short Term | 0.41 | SMERA A3 (Assigned) |

Annexure – Details of instruments rated

| Name of the Facilities | Date of Issuance | Coupon Rate | Maturity Date | Size of the Issue (Rs. Crore) | Ratings/Outlook |
|------------------------------------|------------------|----------------|----------------|-------------------------------|---------------------------------|
| Cash Credit | Not Applicable | Not Applicable | Not Applicable | 9.10 [^] | SMERA BBB-/ Stable (Reaffirmed) |
| Combined ODH/ODBD | Not Applicable | Not Applicable | Not Applicable | 7.50 | SMERA BBB-/ Stable (Reaffirmed) |
| Cash Credit | Not Applicable | Not Applicable | Not Applicable | 3.56 ^{**} | SMERA BBB-/ Stable (Reaffirmed) |
| Packing Credit Facility/PCFC Limit | Not Applicable | Not Applicable | Not Applicable | 8.00 ^{***} | SMERA A3 (Assigned) |
| Term loans | Not Applicable | Not Applicable | Not Applicable | 4.36 | SMERA BBB-/ Stable (Reaffirmed) |
| Term loans | Not Applicable | Not Applicable | Not Applicable | 5.00 ^{^^} | SMERA A3 (Reaffirmed) |
| Term loans | Not Applicable | Not Applicable | Not Applicable | 13.30 [#] | SMERA BBB- (Assigned) |
| FDBP/FUBP | Not Applicable | Not Applicable | Not Applicable | 5.00 | SMERA A3 (Assigned) |
| Letter of Guarantee ^{**} | Not Applicable | Not Applicable | Not Applicable | 0.41 | SMERA A3 (Reaffirmed) |

[^]The cash credit amount of Rs.9.10 crore consists of sublimit of FCL Rs. 9.10, PC of Rs.9.10, Inland L.C of Rs.9.10.

^{^^}FDBP/FUDBP of Rs.5.00 crore consists of sublimit of FUBP/IDBP/IUDBP of Rs.2.00

^{*}The combined ODH/ODBD of Rs.7.50 consists of sublimit of both PCFC and FDBP/FUBP/PSCFC of Rs.5.00 crore.

^{**}The cash credit limit of Rs.3.56 crore consist of sublimit of EPC/FBDN of Rs.3.50, Letter of Credit of Rs.2.00 crore, Bank Guarantee Rs.0.50 crore

^{***} Packing Credit Facility/PCFC Limit of Rs.8.00 crore consists of sublimit of FDBP/FUDBP of Rs.8.00 crore and sublimit of Cash Credit of Rs.8.00 crore

[#]The term loan of Rs.13.30 crore consist of sublimit of Letter of Credit - Capex Rs.8.00 crore.

Status of non-cooperation with previous CRA (if applicable): Not Applicable

Any other information: Not Applicable

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ABOUT SMERA

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