

## Press Release

Salona Cotspin Limited

January 31, 2019

Rating Reaffirmed, Assigned and Withdrawn



<b>Total Bank Facilities Rated*</b>	Rs. 55.82 Cr.
<b>Long Term Rating</b>	ACUITE BBB- / Outlook: Stable
<b>Short Term Rating</b>	ACUITE A3

\* Refer Annexure for details

### Rating Rationale

Acuité has reaffirmed long-term rating of '**ACUITE BBB-**' (read as **ACUITE triple B minus**) and short term rating of '**ACUITE A3**' (read as **ACUITE A three**) to the existing Rs. 52.82 crore bank facilities of Salona Cotspin Limited (SCL). Further, Acuité has assigned long-term rating of '**ACUITE BBB-**' (read as **ACUITE triple B minus**) to the proposed facility of Rs. 3.00 crore and has withdrawn short term rating of '**ACUITE A3**' (read as **ACUITE A three**) on the previously rated facilities of Rs. 0.41 crore. The outlook is '**Stable**'.

SCL, based at Coimbatore, was incorporated in 1996 by Mr. Shyamlal Agarwala (Managing Director). The company is engaged in the manufacturing and selling of Cotton Yarn, Knitted Fabrics and Garments at Erode (Tamil Nadu). The company caters to both domestic and international markets. The company has installed capacity of 24336 spindles.

The rating has being reaffirmed and constrained due to decline in revenues, net profit margins and elongation in working capital cycle due to substantial increase in inventory levels. The operating income has decline by 11.86 percent to Rs. 106.23 crore in FY2018 as compared to Rs.121.19 crore in FY2017. The inventory days has increased to 137 days in FY2018 as compared to 88 days in FY2017. However, the performance in last two quarters has improved in FY2019 and Acuité believes that the company will be able to sustain its existing business and financial risk profile over near to medium term.

### Analytical Approach

Acuité has considered the standalone business and financial risk profiles of SCL for arriving at the rating.

### Key Rating Drivers

#### Strengths

- **Established track record and experienced management**

SCL is engaged in the manufacturing and selling of Cotton Yarn, Knitted Fabrics and Garments in business since 1996. The company has established presence of over two decades in domestic as well as international textile market. 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. Further, Mr. Shyamlal 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). The company is also well supported by second line of management.

- **Moderate financial risk profile**

The financial risk profile of SCL is marked by healthy net worth, moderate gearing and comfortable debt protection metrics. The net worth stood at Rs. 31.74 crore as on 31 March, 2018 which has increase from Rs.29.72 crore as on 31 March, 2017 as against Rs.26.43 crore in the previous year. The net worth includes unsecured loans from promoters of Rs.1.87 crore. The gearing (debt-equity) stood at 1.31 times as on 31 March, 2018 as compared to 1.12 times as on 31 March, 2017. The total debt includes term loan of Rs.3.38 crore and short term borrowings of Rs.34.39 crore. The Interest Coverage Ratio (ICR) stood moderate at 2.82 times in FY2018 and 3.78 times for in FY2017. The DSCR stood at 1.59 times in FY2018 and 1.64 times in FY2017.

- **Geographically well diversified**

SCL is geographically well diversified and has established market presence in domestic as well as international market. The company runs eleven showrooms (leased) for their own brands and has well established distributor network with pan India presence. SCL also exports its products to country including china, Bangladesh, Sri Lanka, South Korea, Turkey and Thailand.

### Weaknesses

- **Working capital intensive operations**

The operations of SCL stood moderately working capital intensive in nature as evident from the high Gross Current Assets (GCA) of 213 days in FY2018 which has increased from 162 days in FY2017. This is on account of increase in inventory days to 137 in FY2018 from 88 in the previous year. Further, working capital bank limit utilisation stood at 62.65 percent for last six month ending December 2018.

- **Volatility in raw material prices and foreign exchange fluctuation risk**

SCL operates in textile industry which is exposed to raw material fluctuation risk i.e. cotton, and agro climatic risk depending on monsoon. The fluctuation in raw material price has direct impact on revenues and operating margins of the company. The same can be observed through decline on revenue in FY2018 as compared to FY2017. Further, the company exports its products to international markets which exposes the company to foreign exchange fluctuation risk. The company makes direct and merchant sales for export of yarn and fabrics to Sri Lanka, Bangladesh, South Korea and other countries. The profit margins are, thus, exposed to risk of fluctuations in forex rates.

### Liquidity Position

SCL has adequate liquidity marked by comfortable net cash accruals to its maturing debt obligations. The company generated cash accruals of Rs.6.23 crore for FY2018 and Rs.6.97 crore in FY2017 against its repayment obligations of Rs.3.70 crore and Rs.2.64 crore, respectively. The company's operations are moderately working capital intensive as marked by gross current asset (GCA) days of 213 in FY2018. This has led to moderate reliance on working capital borrowings. The cash credit limit in the company remained utilised at 62.65 percent during the last six months period ended November 2018. SCL maintains low unencumbered cash and bank balances of Rs.0.13 crore as on March 31, 2018. The current ratio of the company stands moderate at 1.32 times as on March 31, 2018. Acuite believes that the liquidity of the company is likely to remain adequate over the medium term on account of increase in revenues, net cash accruals and no major repayments over the medium term.

### Outlook: Stable

Acuite believes that SCL will maintain a 'Stable' outlook over the medium term and will continue to benefit 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 revenue and profitability margins, well supported by improvement in working capital cycle. Conversely, the outlook may be revised to 'Negative' in case of sharp decline in revenues, 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

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	106.23	121.19	100.25
EBITDA	Rs. Cr.	9.31	8.59	8.71
PAT	Rs. Cr.	2.49	3.34	2.27
EBITDA Margin	(%)	8.77	7.09	8.69
PAT Margin	(%)	2.35	2.76	2.26
ROCE	(%)	8.75	8.35	10.17
Total Debt/Tangible Net Worth	Times	1.31	1.12	1.08
PBDIT/Interest	Times	2.82	3.78	3.19
Total Debt/PBDIT	Times	4.24	3.84	3.24
Gross Current Assets (Days)	Days	213	162	165

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

Not Applicable

### Any other information

None

### Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.htm>
- Trading Entities - <https://www.acuite.in/view-rating-criteria-6.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>

### Note on complexity levels of the rated instrument

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

### Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Crore)	Ratings/Outlook
01-Feb-2018	Cash Credit	Long Term	9.10 <sup>^</sup>	ACUITE BBB- / Stable (Reaffirmed)
	Combined ODH/ODBD	Long Term	7.50	ACUITE BBB- / Stable (Reaffirmed)
	Cash Credit	Long Term	3.56 <sup>**</sup>	ACUITE BBB- / Stable (Reaffirmed)
	Packing Credit	Short Term	8.00 <sup>***</sup>	ACUITE A3 (Assigned)
	Term Loan	Long Term	4.36	ACUITE BBB- / Stable (Reaffirmed)
	Term Loan	Long Term	13.30 <sup>#</sup>	ACUITE BBB- / Stable (Assigned)
	FDBP/FUDBP	Long Term	5.00 <sup>^^</sup>	ACUITE A3 (Reaffirmed)
	FDBP/FUDBP	Long Term	5.00	ACUITE A3 (Assigned)
	Letter of Guarantee <sup>**</sup>	Short Term	0.41	ACUITE A3 (Reaffirmed)
02-Nov-2016	Cash Credit <sup>*</sup>	Long Term	22.16	ACUITE BBB- / Stable (Assigned)
	Term Loan	Long Term	6.95	ACUITE BBB- / Stable (Assigned)
	Post Shipment Credit	Short Term	5.00	ACUITE A3 (Assigned)
	Bank Guarantee <sup>*</sup>	Short Term	0.41	ACUITE A3 (Assigned)

<sup>^</sup>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.

<sup>^^</sup>FDBP/FUDBP of Rs.5.00 crore consists of sublimit of FUBP/IDBP/IUDBP of Rs.2.00

<sup>\*</sup>The combined ODH/ODBD of Rs.7.50 consists of sublimit of both PCFC and FDBP/FUBP/PSCFC of Rs.5.00 crore.

<sup>\*\*</sup>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

<sup>\*\*\*</sup>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

<sup>#</sup>The term loan of Rs.13.30 crore consist of sublimit of Letter of Credit - Capex Rs. 8.00 crore.

**\*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 <sup>^</sup>	ACUITE BBB-/Stable (Reaffirmed)
Combined ODH/ODBD	Not Applicable	Not Applicable	Not Applicable	7.50	ACUITE BBB-/Stable (Reaffirmed)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	3.56 <sup>**</sup>	ACUITE BBB-/Stable (Reaffirmed)
Packing Credit	Not Applicable	Not Applicable	Not Applicable	8.00 <sup>***</sup>	ACUITE A3 (Reaffirmed)
Term Loan	Not Applicable	Not Applicable	Not Applicable	1.36	ACUITE BBB-/Stable (Reaffirmed)
Term Loan	Not Applicable	Not Applicable	Not Applicable	13.30 <sup>#</sup>	ACUITE BBB-/Stable (Reaffirmed)
FDBP/FUDBP	Not Applicable	Not Applicable	Not Applicable	5.00 <sup>^^</sup>	ACUITE A3 (Reaffirmed)
FDBP/FUDBP	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE A3 (Reaffirmed)
Letter of Guarantee <sup>**</sup>	Not Applicable	Not Applicable	Not Applicable	0.41	ACUITE A3 (Withdrawn)
Proposed Facility	Not Applicable	Not Applicable	Not Applicable	3.00	ACUITE BBB-/Stable (Assigned)

<sup>^</sup>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.

<sup>^^</sup>FDBP/FUDBP of Rs.5.00 crore consists of sublimit of FUBP/IDBP/IUDBP of Rs.2.00

<sup>\*</sup>The combined ODH/ODBD of Rs.7.50 consists of sublimit of both PCFC and FDBP/FUBP/PSCFC of Rs.5.00 crore.

<sup>\*\*</sup>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

<sup>\*\*\*</sup>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

<sup>#</sup>The term loan of Rs.13.30 crore consist of sublimit of Letter of Credit - Capex Rs. 8.00 crore.

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**About Acuité Ratings & Research:**

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