

## Press Release

### Salona Cotspin Limited

April 23, 2020

#### Rating Reaffirmed



<b>Total Bank Facilities Rated*</b>	Rs. 55.82 Cr.
<b>Long Term Rating</b>	ACUITE BBB-/ Outlook: Negative (Reaffirmed and Outlook revised)
<b>Short Term Rating</b>	ACUITE A3 (Reaffirmed)

\* Refer Annexure for details

Acuite has reaffirmed the 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 Rs. 55.82 crore bank facilities of Salona Cotspin Limited (SCL). The outlook is revised to '**Negative**' from '**Stable**'.

#### Revision in Outlook

The revision in outlook is majorly on account of outbreak of COVID – 19 leading to lockdown in various countries specially China, USA, Middle East, European nation as well as domestic market like India. SCL has major exposure towards China, South Korea and Bangladesh which contributes to around 60.00 per cent of its total sales in FY2020 and FY2019. Further, continuing domestic economic slowdown which has significantly aggravated by the Covid-19 led disruption may have a prolonged impact on the textile industry and impact mid-size players like SCL. Acuite believes that the company's operational performance will be significantly impaired over at least one to two quarters even in the event of the timely resumption of operations post the lockdown period. Further, it will have direct impact on the revenues, profitability and working capital cycle of the company. Even mobilisation of labor and resources for bringing back operations to normal will take time. Any major impact of the debt protection metric impinge a negative bias towards the rating.

The rating has being reaffirmed on account of improvement in revenues and working capital cycle. The operating income has been improved by 25.08 percent to Rs. 132.87 crores in FY2019 as compared to Rs.106.23 crores in FY2018. The GCA days stood improved but moderately intensive at 173 days in FY2019 as against 213 days in FY2018. However, revenues in 9MFY2020 stood at Rs. 84.78 core viz. Rs.106.19 crore in 9MFY2019. Acuite expects the company to sustain its existing business and financial risk profile over near to medium term.

#### About Company

SCL, based in Coimbatore, was incorporated in 1996. The company is led by Mr. Shyamlal Agarwala (Managing Director). SCL 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.

#### Analytical Approach

Acuite has considered the standalone business and financial risk profiles of SCL to arrive at this 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. 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). The company is also well supported by second line of management.

- **Moderate financial risk profile**

The financial risk profile of SCL stood moderate marked by healthy net worth, moderate gearing and debt protection matrices. The net worth of SCL stood at Rs. 33.07 crore as on 31 March 2019 as against Rs. 31.74 crore as on 31 March 2018. The net worth includes unsecured loans of Rs.1.87 crore as quasi capital. The gearing (debt-equity) stood at 1.48 times as on 31 March 2019 as against 1.31 times as on 31 March 2018. The total debt of Rs. 48.98 crore as on 31 March 2019 mainly comprises Rs. 39.10 crore of working capital borrowings and Rs. 9.88 crore of long term loans. The interest coverage ratio stood comfortable at 2.55 times for FY2019 however, declining from 2.82 times in FY2018. NCA/TD (Net Cash Accruals to Total Debt) ratio stood at 0.11 times in FY2019 and 0.15 times in FY2018. Debt to EBITDA and DSCR stood at 4.81 times and 1.24 times in FY2019 as against 4.24 times and 1.59 times in FY2018.

- **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 moderate Gross Current Assets (GCAs) of 173 days in FY2019 which has improved from 213 days in FY2017. This is on account of decrease in inventory holding and receivables days which stood at 110 days and 51 days in FY2019 as against 137 days and 66 days in the previous year. Further, working capital bank utilisation limits stood at stands at 50.00 percent for last six months ending February 2020. Acuite believes unutilised bank lines will be sufficient to meet any incremental working capital requirement of the company.

- **Volatility to 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 prices has direct impact on revenues and operating margins of the company. The same can be observed through decline in operating margins in 7.56 percent for FY2019 as against 8.77 percent in FY2018. The PAT margins have also been significantly impacted and stood declined at 1.26 percent in FY2019 as against 2.35 percent in the previous year. Further, the company exports its products in international market which exposes the company to foreign exchange fluctuation risk. The company makes direct and merchant sales for export of yarn and fabrics to China, Bangladesh, South Korea and other countries. The profit margins are, thus, exposed to risk of fluctuations in forex rates.

### **Rating Sensitivities**

- Improvement in scale of operations, while maintaining stable profit margins.
- Any stretch in working capital cycle leading to deterioration of financial risk profile and liquidity.
- Deterioration in business risk profile with consequent impact on debt coverage metrics

### **Liquidity Position: Adequate**

SCL has adequate liquidity marked by comfortable net cash accruals to its maturing debt obligations. The company generated cash accruals of Rs. 5.53 crores for FY2019 and Rs. 6.23 crores in FY2018 against its repayment obligations of Rs. 3.70 crores and Rs. 2.64 crores. The GCA days stood improved

but moderately intensive at 173 days in FY2019 as against 213 days in FY2018. This has led to moderate reliance on working capital borrowings, stood at stands at 50.00 percent for last six months ending February 2020. SCL maintains low unencumbered cash and bank balances of Rs.0.15 crore as on March 31, 2019. The current ratio of the company stands moderate at 1.28 times as on March 31, 2019. Acuite believes that the liquidity of the company is likely to remain adequate over the medium term.

### Outlook: Negative

Acuite has revised the outlook of SCL to 'Negative' on account of amid expected slowdown in the textile industry coupled with economic slowdown on account of outbreak of COVID – 19. The outlook may be revised to 'Stable' in case of company demonstrated ability to sustain its revenues, profitability along with maintaining its working capital cycle. Conversely, the rating may be downgraded in case of any deterioration in working capital management and/or sharp decline in its revenues or profitability of the company leading to deterioration in the financial risk profile and liquidity position.

### About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	132.87	106.23
PAT	Rs. Cr.	1.68	2.49
PAT Margin	(%)	1.26	2.35
Total Debt/Tangible Net Worth	Times	1.48	1.31
PBDIT/Interest	Times	2.55	2.82

### Any other information

None

### Any Material information

Not Any

### Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-59.htm>
- Trading Entities - <https://www.acuite.in/view-rating-criteria-61.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>

### Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

### Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Crore)	Ratings/Outlook
31-Jan-2019	Cash Credit	Long Term	9.10^	ACUITE BBB-/Stable (Reaffirmed)
	Combined ODH/ODBD	Long Term	7.50	ACUITE BBB-/Stable (Reaffirmed)
	Cash Credit	Long Term	3.56**	ACUITE BBB-/Stable (Reaffirmed)
	Packing Credit	Short Term	8.00***	ACUITE A3 (Reaffirmed)
	Term Loan	Long Term	1.36	ACUITE BBB-/Stable (Reaffirmed)
	Term Loan	Long Term	13.30#	ACUITE BBB-/Stable (Reaffirmed)
	FDBP/FUDBP	Short Term	5.00^^	ACUITE A3 (Reaffirmed)
	FDBP/FUDBP	Short Term	5.00	ACUITE A3

				(Reaffirmed)
	Letter of Guarantee**	Short Term	0.41	ACUITE A3 (Withdrawn)
	Proposed Facility	Long Term	3.00	ACUITE BBB-/Stable (Assigned)
01-Feb-2018	Cash Credit	Long Term	9.10^	ACUITE BBB- / Stable (Reaffirmed)
	Combined ODH/ODBD	Long Term	7.50	ACUITE BBB- / Stable (Reaffirmed)
	Cash Credit	Long Term	3.56**	ACUITE BBB- / Stable (Reaffirmed)
	Packing Credit	Short Term	8.00***	ACUITE A3 (Assigned)
	Term Loan	Long Term	4.36	ACUITE BBB- / Stable (Reaffirmed)
	Term Loan	Long Term	13.30#	ACUITE BBB- / Stable (Assigned)
	FDBP/FUDBP	Long Term	5.00^^	ACUITE BBB- / Stable (Reaffirmed)
	FDBP/FUDBP	Long Term	5.00	ACUITE BBB- / Stable (Assigned)
	Letter of Guarantee**	Short Term	0.41	ACUITE A3 (Reaffirmed)
	02-Nov-2016	Cash Credit*	Long Term	22.16
Term Loan		Long Term	6.95	ACUITE BBB- / Stable (Assigned)
Post Shipment Credit		Short Term	5.00	ACUITE A3 (Assigned)
Bank Guarantee*		Short Term	0.41	ACUITE A3 (Assigned)

Note: Maximum utilization of total facilities is Rs.55.82 crores.

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

**\*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^	ACUITE BBB-/Negative (Reaffirmed and Outlook revised)
Combined ODH/ODBD	Not Applicable	Not Applicable	Not Applicable	7.50	ACUITE BBB-/Negative (Reaffirmed and Outlook revised)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	3.56**	ACUITE BBB-/Negative (Reaffirmed and Outlook revised)
Packing Credit	Not Applicable	Not Applicable	Not Applicable	8.00***	ACUITE A3 (Reaffirmed)
Term Loan	Nov - 2016	Not Applicable	April - 2023	1.06	ACUITE BBB-/Negative (Reaffirmed and Outlook revised)

Term Loan	OCT -2017	Not Applicable	March- 2024	10.60#	ACUITE BBB-/Negative (Reaffirmed and Outlook revised)
FDBP/FUDBP	Not Applicable	Not Applicable	Not Applicable	5.00^^	ACUITE A3 (Reaffirmed)
FDBP/FUDBP	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE A3 (Reaffirmed)
Warehousing Funding	Not Applicable	Not Applicable	Not Applicable	6.00	ACUITE BBB-/Negative (Reaffirmed and Outlook revised)

Note: Maximum utilization of total facilities is Rs.55.82 crores.

^The cash credit amount of Rs.9.10 crore consists of sublimit of FCL Rs.9.10, PC of Rs.9.10, and Inland L.C of Rs.9.10. BG of Rs.0.41 crores.

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

\*\*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.

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## About Acuité Ratings & Research:

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