

Press Release

Salona Cotspin Limited

July 22, 2021



Rating Upgraded, Assigned and Outlook Revised; Withdrawn

Total Bank Facilities Rated*	Rs. 150.00 crore (enhanced from Rs.55.82 crore)
Long Term Rating	ACUITE BBB/Outlook: Stable (Upgraded from BBB-/Negative, Assigned and outlook revised; Withdrawn)
Short Term Rating	ACUITE A3+ (Upgraded from A3)

* Refer Annexure for details

Rating Rationale

Acuité has upgraded the long term rating to **'ACUITE BBB' (read as ACUITE triple B)** from **'ACUITE BBB-' (read as ACUITE triple B minus)** and upgraded the short term rating to **'ACUITE A3+' (read as ACUITE A three plus)** from **'ACUITE A3' (read as ACUITE A three)** to the Rs. 137.52 crore (Enhanced from Rs. 55.82 crores) bank facilities of Salona Cotspin Limited (SCL).

Further, Acuité has assigned the long term rating to Rs. 12.48 crore bank facilities of Salona Cotspin Limited (SCL). The outlook is revised to **'Stable'** from **'Negative'**.

The Acuité has also upgraded and withdrawn long term rating to **'ACUITE BBB' (read as ACUITE triple B)** from **'ACUITE BBB-' (read as ACUITE triple B minus)** on previously assigned facility of Rs. 6.00 crores as per request of the company and confirmation from the banker in accordance with Acuité's withdrawal policy.

About Company

Salona Cotspin Limited (SCL), based in Coimbatore, was incorporated in 1996. The company is led by Mr. Shyamlal Agarwala (Managing Director) and Mr. Manoj Kumar (Joint 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 24,336 spindles and also owns windmills for captive consumption at various location in Tamil Nadu.

Rationale for rating upgradation and revision of outlook

The rating upgrade and revision in outlook factors in improvement in scale of operations and net profitability margins in FY2021 (Provisional), thereby improving net cash accruals and liquidity levels, despite uncertain drawback of pandemic. The ratings also draws comfort from improvement in coverage indicators, undrawn working capital limits and favorable industry prospects. The revenues are expected to improve further in FY2022 on the back of healthy order book position and higher trading activity undertaken by SCL. Moreover, planned debt funded capital expenditure by addition in existing capacity and reduction in overall power cost by installation of solar unit would lead to improvement in overall business risk profile, profitability of SCL over medium term.

Further, expected restoration of supply chain and picking up of domestic demand will help company performance to remain intact. Also, increase in scale of operations may lead to incremental working capital requirements to maintain growth momentum. However, rating is constrained by deterioration in overall debt protection metrics due to increase in long term debt, decline in operating margins and moderate working capital cycle. Any major impact on debt protection metrics or coverage indicators impacting liquidity profile and financial risk profile of SCL may lead to negative bias towards the rating.

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of SCL to arrive at this rating.

Key Rating Drivers

Strengths

- **Experienced management, improving scale of operations and established market position**

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). The company is also well supported by second line of management.

Further, the company has maintained longstanding relationships with its customers and suppliers. The same has resulted in recurring flow of orders and regular supply of raw materials. These can be observed through higher operating income of Rs. 229.27 crore in FY2021 (Provisional) as against Rs. 121.85 crore in FY2020, due to higher trading activity for export orders undertaken by SCL, on back of higher demand in international market. Acuite believes that SCL's established market position, long track record of over two decades in the business and long standing relationship with its customers and suppliers will continue to benefit over the medium term.

- **Improving profitability and geographically well diversified**

The company has reported lower EBITDA margin which stood at 6.44 percent in FY2021 (Provisional) as against 7.01 percent in FY2020. The same is due to higher trading activity undertaken which contributes to 48 percent of the revenues in FY2021 (Provisional) and some impact of fluctuation in cotton prices. However, the PAT margin stood improved at 2.70 percent in FY2021 (Provisional) as against 0.96 percent in FY2020. The same is expected to improve further on back of increase in overall scale of operations, improvement in existing facility undertaken over the years to improve quality of the cotton yarn, favorable industry prospects and healthy order book position. Moreover, SCL has geographically well diversified customers and has established market presence in domestic as well as international market. The company has its own establish brands in name of 'Salona' and has well established distributor network with pan India presence. SCL also exports its products to country like Bangladesh, Sri Lanka, Hong Kong and Vietnam.

- **Moderate financial risk profile**

SCL has moderate financial risk profile marked by moderate net worth of Rs. 39.83 crore as on March 31, 2021 (Provisional) as against Rs. 33.86 crore as on March 31, 2020, which includes unsecured loans of Rs.1.87 crores treated as quasi capital as they are subordinated with bank facilities. The gearing (Debt-Equity) of the company stood high at 1.88 times as on March 31, 2021 (Provisional) as against 1.13 times as on March 31, 2020. The gearing has increased due to increase in long term debt by adding of new term loans and covid loans under Guaranteed Emergency Credit Line (GECL). The total debt of the company as on March 31 2021 (Provisional) stood higher at Rs. 74.79 crore as on March 31, 2021(Provisional) as against Rs.38.40 crores as on March 31, 2020. The total debt comprises of the long term debt of Rs.15.26 crore and short term debt of Rs.59.53 crore as on March 31, 2021 (Provisional). However, the Interest Coverage Ratio stood improved at 3.34 times as on March 31 2021 (Provisional) as against 2.12 times as on March 31, 2020 on account increase in operating profits. DSCR stood improved of 1.96 times as on March 31 2021 (Provisional) as against 1.10 times as on March 31, 2020. NCA/ TD stood at 0.12 times as on March 31, 2021 (Provisional) as compared to 0.10 times as on March 31, 2020. Further, TOL/TNW (Total outside Liabilities/Tangible Net worth) ratio stood high at 2.47 times as on March 31 2021 (Provisional) as against 1.46 times as on March 31, 2020.

Weaknesses

- **Elongation in working capital cycle**

The operations of the company are moderately working capital intensive in nature marked by GCA of 175 days as on March 31, 2021 (Provisional) against 170 days in the previous year. The moderate GCA days are on account of moderate elongation in receivables days which stood at 87 days as on March 31,

2021 (Provisional) as against 41 days as on March 31, 2020. The same is due to higher LC backed receivables for exports which has credit period of 90 days. The inventory holding days though remained moderate at 73 days as on March 31, 2021 (Provisional) as against 118 days as on March 31, 2020. However, working capital limit utilization stood at 65.00 percent for last six months ending June 2021. Acuite believes unutilized bank lines will be sufficient to meet any incremental working capital requirement of the company.

• **Highly competitive industry and susceptibility of margins to volatility in raw material prices**

The textile industry is a highly fragmented industry and presence of large number of organised and unorganised players have created high competition in the industry. The company faces competition from large players from organized segment as well as numerous players in the unorganised segment. Also, SCL undertakes trading activity, the entry barriers are low thereby leading to stiff competition for players like SCL. Further, 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 company is also exposed to forex risk as company is also involved into export and import of certain products. Acuite believes that the ability of the company to pass on volatility in raw material to its customers while maintaining profitability and efficiently managing working capital cycle remain key rating sensitivity factors.

Rating Sensitivities

- Sustaining existing business and financial risk profile
- Decline in profitability and net cash accruals
- Higher than expected debt funded capital expenditure impacting liquidity profile
- Further elongation in working capital cycle resulting in cash flow mismatch

Liquidity Position: Adequate

The Liquidity profile of the company stood adequate marked by net cash accruals of Rs. 3.82 – Rs.8.86 crore as against no major repayment obligation during FY2019-2021. The cash accruals are expected in the range of Rs. 8.50 – Rs.12.50 crore, against debt obligations of Rs.5.50 – Rs.7.50 crore through FY22-24. The company maintains unencumbered cash and bank balances of Rs.0.28 crore as on March 31, 2021 (Provisional). The current ratio of the company stands at 1.27 times as on March 31, 2021 (Provisional). The gross current asset (GCA) days which stood moderate at 175 days in FY2021 (Provisional) as against 174 days in FY2020. The working capital limit utilization stood at 65.00 percent utilised for last six month ended June 2021. Acuite believes that company's net cash accruals and un-utilised bank limits is expected to provide some cushion to incremental working capital requirement in short term.

Outlook: Stable

The outlook of SCL has been revised to stable on account of improvement in scale of operations and overall business risk profile of the company. The company will continue to benefit from its experienced management and longstanding relationship with existing clients. The outlook may be revised to 'Positive' incase the company registers healthy growth in revenues while achieving sustained improvement in operating margins, capital structure and working capital management. Conversely, the outlook may be revised to 'Negative' in case of decline in the company's revenues or profit margins, or in case of deterioration in the company's financial risk profile due to higher than expected debt funded capital expenditure.

About the Rated Entity - Key Financials

	Unit	FY21 (Provisional)	FY20 (Actual)
Operating Income	Rs. Cr.	229.27	121.85
PAT	Rs. Cr.	6.20	1.17
PAT Margin	(%)	2.70	0.96
Total Debt/Tangible Net Worth	Times	1.88	1.13
PBDIT/Interest	Times	3.34	2.12

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

None

Any other information

None

Material Covenants

None

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
23-Apr-2020	Cash Credit	Long term	9.10 [^]	ACUITE BBB-/Negative (Reaffirmed and Outlook revised)
	Combined ODH/ODBD	Long term	7.50	ACUITE BBB-/Negative (Reaffirmed and Outlook revised)
	Cash Credit	Long term	3.56 ^{**}	ACUITE BBB-/Negative (Reaffirmed and Outlook revised)
	Packing Credit	Short term	8.00 ^{***}	ACUITE A3 (Reaffirmed)
	Term Loan	Long term	1.06	ACUITE BBB-/Negative (Reaffirmed and Outlook revised)
	Term Loan	Long term	10.60 [#]	ACUITE BBB-/Negative (Reaffirmed and Outlook revised)
	FDBP/FUDBP	Short term	5.00 ^{^^}	ACUITE A3 (Reaffirmed)
	FDBP/FUDBP	Short term	5.00	ACUITE A3 (Reaffirmed)
	Warehousing Funding	Long term	6.00	ACUITE BBB-/Negative (Reaffirmed and Outlook revised)
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

				RATINGS & RESEARCH (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	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*	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	14.00^	ACUITE BBB/Stable (Upgraded and Outlook revised)
FDBP/FUDBP	Not Applicable	Not Applicable	Not Applicable	12.00^^	ACUITE A3+ (Upgraded)
WCTL (ECL)	12/11/2020	8.00%	11/4/2022	0.91	ACUITE BBB/Stable (Assigned)
WCTL (GECL)	12/11/2020	7.50%	11/10/2024	3.77	ACUITE BBB/Stable (Assigned)
Cash credit	Not Applicable	Not Applicable	Not Applicable	3.56**	ACUITE BBB/Stable (Upgraded and Outlook revised)
FBD	Not Applicable	Not Applicable	Not Applicable	3.00	ACUITE A3+ (Upgraded)
Warehousing Funding	Not Applicable	Not Applicable	Not Applicable	6.00	ACUITE BBB (Upgraded and

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
					Withdrawn)
Term Loan	30/12/2020	8.10%	31/12/2031	4.20	ACUITE BBB/Stable (Upgraded and Outlook revised)
WCTL (ECL)	30/03/2020	7.40%	11/08/2021	0.23	ACUITE BBB/Stable (Assigned)
WCTL (GECL)	12/08/2020	7.40%	11/07/2024	0.79	ACUITE BBB/Stable (Assigned)
Packing Credit Facility/PCFC Limit	Not Applicable	Not Applicable	Not Applicable	8.00***	ACUITE A3+ (Upgraded)
WCTL(GECL)	16/06/2021	7.50%	15/06/2024	2.76	ACUITE BBB/Stable (Assigned)
WCTL(ECL)	16/06/2021	7.50%	15/06/2022	0.59	ACUITE BBB/Stable (Assigned)
Term loans	16/06/2021	7.95%	15/03/2023	4.03	ACUITE BBB/Stable (Upgraded and Outlook revised)
Term loans	16/06/2021	7.95%	15/03/2027	5.73	ACUITE BBB/Stable (Upgraded and Outlook revised)
Cash credit	Not Applicable	Not Applicable	Not Applicable	20.00	ACUITE BBB/Stable (Upgraded and Outlook revised)
EBD	Not Applicable	Not Applicable	Not Applicable	50.00	ACUITE A3+ (Upgraded)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	0.50	ACUITE BBB/Stable (Upgraded and Outlook revised)
Combined ODH/ODBD	Not Applicable	Not Applicable	Not Applicable	7.50	ACUITE BBB/Stable (Upgraded and Outlook revised)
FDBP/FUBP	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE A3+ (Upgraded)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	3.43	ACUITE BBB/Stable (Assigned)

^The cash credit amount of Rs.14.00 crore consists of sublimit of FCL, PC of Rs.14.00, and Inland L.C of Rs.14.00 crores

^^FDBP/FUDBP consists of sublimit of FUBP/IDBP/IUDBP under LC of Rs.2.00

**The cash credit limit of Rs.3.56 crore consist of sublimit of EPC/FBDN of Rs.3.50 cr.

***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

#Sublimit of Letter of Credit - Capex Rs.8.00 crore.

Contacts

Analytical	Rating Desk
Aditya Gupta Vice President Tel: 022-49294041 aditya.gupta@acuite.in Rupesh Patel Senior Analyst - Rating Operations Tel: 022-49294044 rupesh.patel@acuite.in	Varsha Bist Senior Manager - Rating Desk Tel: 022-49294011 rating.desk@acuite.in

About Acuité Ratings & Research:

Acuité Ratings & Research Limited is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 8,383 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Mumbai.

Disclaimer: *An Acuité rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. Acuité ratings are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, Acuité, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. Acuité is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind arising from the use of its ratings. Acuité ratings are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website (www.acuite.in) for the latest information on any instrument rated by Acuité, Acuité's rating scale and its definitions.*