

Press Release

Salona Cotspin Limited

October 19, 2022

Rating Reaffirmed



Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	72.00	ACUITE BBB Stable Reaffirmed	-
Bank Loan Ratings	78.00	-	ACUITE A3+ Reaffirmed
Total Outstanding Quantum (Rs. Cr)	150.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has reaffirmed the long term rating of '**ACUITE BBB**' (read as **ACUITE triple B**) and the short term rating of '**ACUITE A3+**' (read as **ACUITE A three plus**) to the Rs. 150.00 crore bank facilities of Salona Cotspin Limited (SCL).

Rationale for reaffirmation

The reaffirmation of the rating is driven by the improved operating performance of SCL in FY2022 marked by improvement in operating income, stable profitability and moderate financial risk profile. The Company's revenue increased to Rs.639.03 Crore in FY2022 as against Rs. 229.27 crore in FY2021. The growth is driven by both increased volumes and realisations. The production of cotton yarn was 40.53 Lakh Kgs in FY2022 as against 31.93 Lakhs Kgs in FY2021. The operating profitability of the Company remained range bound between 5.5-7 percent for the last three years ended FY2022. The financial risk profile continues to remain moderate marked by modest net-worth, moderate gearing and coverage indicators

About the 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 Jhajharia (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 and solar plant for captive power generation and consumption, at various location in Tamil Nadu.

Analytical Approach

Acuite 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. 639.03 crore in FY2022 as against Rs.229.27 crore in FY2021, due to higher trading activity for export orders undertaken by SCL, on back of higher demand in international market. Out of the total sales in FY2022, export sales stood at Rs. 548.92 crore and domestic sales at Rs.61.71 crore

SCL's customer base is geographically well diversified. SCL exports its products to countries like Bangladesh, Sri Lanka, Hong Kong and Vietnam. The company markets its product under its brand name 'Salona' and has a well established distributor network with pan India presence.

Acuité 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.

Moderate Financial Risk Profile

SCL has a moderate financial risk profile marked by net worth of Rs.57.21 crore as on March 31, 2022 as against Rs.37.96 crore as on March 31, 2021. The gearing (Debt-Equity) of the company stood at 2.42 times as on March 31, 2022 as against 2.02 times as on March 31, 2021. The gearing has increased due to increased short term borrowings, addition of term loans availed to finance construction of solar power plant and GECL loans. The total debt of the company as on March 31 2022 stood at Rs.138.73 crore which comprises of long term debt of Rs.32.08 crore, unsecured loans of Rs.1.62 and short term debt of Rs.105.03 crore. Interest Coverage Ratio stood at 5.07 times in FY2022 as against 3.34 times in FY2021. DSCR stood improved of 2.41 times in FY2022 as against 1.96 times in FY2021. NCA/ TD stood at 0.17 times as on March 31, 2022 as compared to 0.12 times as on March 31, 2021. Further, TOL/TNW (Total outside Liabilities/Tangible Net worth) ratio stood at 2.98 times in FY2022 as against 2.64 times in FY2021.

Acuité believes that SCL's financial risk profile will remain moderate on account of absence of any major debt funded capex plan.

Stable profitability margins

The operating profitability of the Company remained range bound between 5.5-7 percent for the last three years ended FY2022. The operating profitability margin stood at 5.85 percent in FY2022 as against 6.44 percent in FY2021, the decline is primarily due to increase in low margin generating trading activity and volatility in cotton prices. Revenue generation from trading stood at 69 percent of the total sale in FY2022 as against 50 percent in FY2021. PAT margin stood at 3.10 percent in FY2022 as against 2.70 percent in FY2021. SCL commissioned its newly constructed 2MW solar power plant in March, 2022. The volatility in cotton prices is expected to be set off by the savings in power cost expected to be generated over the medium term,

thus Acuite expects SCL's profitability to remain stable over the medium term.

Weaknesses

Working Capital Intensive Nature of operations

The operations of SCL are moderately working capital intensive in nature. The Company's gross current assets (GCAs) days stood at 105 days in FY2022 as against 175 days in FY2021. The decline in GCA days is primarily on account of reduction in inventory days. Inventory holding days stood at 38 days in FY2022 as against 73 days in FY2021. Due to volatility in cotton prices, SCL had reduced its inventory levels to minimise its price risk. The receivable days of SCL stood at 58 days in FY2022 as against 87 days in FY2021. The working capital bank limit utilization of its cash credit facility is ~13.93 percent for seven months June 2022 and of the bills discounting facility is ~65.00 percent for the same period. The creditor days stood at 12 days for FY2022 as against 35 days for FY2021.

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 exports and exports contributed to 89.9% of the total revenue in FY2022.

Acuité believes that the ability of the company to pass on volatility in raw material to its customers while maintaining profitability and managing working capital cycle remain key rating sensitivity factors.

Rating Sensitivities

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

Material covenants

None

Liquidity Position: Adequate

The Company's liquidity profile is adequate marked by sufficient net cash accruals of Rs. 23.12 crores in FY2022 against its maturing debt obligations of Rs.5.26 crores for the same period. The Net cash accruals are expected to remain in the range of Rs. 23-25.93 crore and the maturing debt obligations in the range of Rs. 4.30-4.95 crore during the year FY2023-24. The Gross Current Assets (GCAs) stood at 105 days in FY2022 as against 175 days in FY2021. The working capital bank limits utilization of cash credit facility is 13.93 percent for seven months till June 2022 and of the bills discounting facility is on average 65.00 percent for the same period. The company maintains unencumbered cash and bank balances of Rs.0.16 crore as on March 31, 2022. The current ratio of the company stands at 1.20 times as on March 31, 2022. Acuité 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 is 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' in case 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.

Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	639.03	229.27
PAT	Rs. Cr.	19.79	6.20
PAT Margin	(%)	3.10	2.70
Total Debt/Tangible Net Worth	Times	2.42	2.02
PBDIT/Interest	Times	5.07	3.34

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

None

Any other information

None

Applicable Criteria

- Default Recognition :- <https://www.acuite.in/view-rating-criteria-52.htm>
- Entities In Manufacturing Sector:- <https://www.acuite.in/view-rating-criteria-59.htm>
- Trading Entity: <https://www.acuite.in/view-rating-criteria-61.htm>
- Application Of 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

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
22 Jul	Bills Discounting	Short Term	12.00	ACUITE A3+ (Upgraded from ACUITE A3)
	Cash Credit	Long Term	20.00	ACUITE BBB Stable (Upgraded from ACUITE BBB- Negative)
	Warehouse Receipt Financing	Long Term	6.00	ACUITE BBB (Withdrawn)
	Packing Credit	Short Term	8.00	ACUITE A3+ (Upgraded from ACUITE A3)
	Working Capital Term Loan	Long Term	0.59	ACUITE BBB Stable (Assigned)
	Cash Credit	Long Term	14.00	ACUITE BBB Stable (Upgraded from ACUITE BBB- Negative)
	Bills Discounting	Short Term	5.00	ACUITE A3+ (Upgraded from ACUITE A3)
	Secured Overdraft	Long Term	7.50	ACUITE BBB Stable (Upgraded from ACUITE BBB- Negative)
	Term Loan	Long Term	4.20	ACUITE BBB Stable (Upgraded from ACUITE BBB- Negative)
	Working Capital Term Loan	Long Term	0.23	ACUITE BBB Stable (Assigned)
	Working Capital Term Loan	Long Term	0.91	ACUITE BBB Stable (Assigned)

2021	Bills Discounting	Short Term	50.00	ACUITE A3+ (Upgraded from ACUITE A3)
	Working Capital Term Loan	Long Term	0.79	ACUITE BBB Stable (Assigned)
	Working Capital Term Loan	Long Term	2.76	ACUITE BBB Stable (Assigned)
	Working Capital Term Loan	Long Term	3.77	ACUITE BBB Stable (Assigned)
	Bills Discounting	Short Term	3.00	ACUITE A3+ (Upgraded from ACUITE A3)
	Cash Credit	Long Term	3.56	ACUITE BBB Stable (Upgraded from ACUITE BBB- Negative)
	Proposed Bank Facility	Long Term	3.43	ACUITE BBB Stable (Assigned)
	Term Loan	Long Term	4.03	ACUITE BBB Stable (Upgraded from ACUITE BBB- Negative)
	Cash Credit	Long Term	0.50	ACUITE BBB Stable (Upgraded from ACUITE BBB- Negative)
	Term Loan	Long Term	5.73	ACUITE BBB Stable (Upgraded from ACUITE BBB- Negative)
23 Apr 2020	Bills Discounting	Short Term	5.00	ACUITE A3 (Reaffirmed)
	Warehouse Receipt Financing	Long Term	6.00	ACUITE BBB- Negative (Reaffirmed)
	Packing Credit	Short Term	8.00	ACUITE A3 (Reaffirmed)
	Term Loan	Long Term	1.06	ACUITE BBB- Negative (Reaffirmed)
	Secured Overdraft	Long Term	7.50	ACUITE BBB- Negative (Reaffirmed)
		Long		
	Cash Credit	Term	3.56	ACUITE BBB- Negative (Reaffirmed)
	Term Loan	Long Term	10.60	ACUITE BBB- Negative (Reaffirmed)
	Cash Credit	Long Term	9.10	ACUITE BBB- Negative (Reaffirmed)
31 Jan 2019	Bills Discounting	Short Term	5.00	ACUITE A3 (Reaffirmed)
	Cash Credit	Long Term	3.56	ACUITE BBB- Stable (Reaffirmed)
	Term Loan	Long Term	1.36	ACUITE BBB- Stable (Reaffirmed)
	Secured Overdraft	Long Term	7.50	ACUITE BBB- Stable (Reaffirmed)
	Packing Credit	Short Term	8.00	ACUITE A3 (Reaffirmed)
	Bills Discounting	Short Term	5.00	ACUITE A3 (Reaffirmed)
	Term Loan	Long Term	13.30	ACUITE BBB- Stable (Reaffirmed)
	Proposed Bank Facility	Long Term	3.00	ACUITE BBB- Stable (Assigned)
	Bills Discounting	Short Term	5.00	ACUITE A3 (Reaffirmed)
Bank Guarantee	Short Term	0.41	ACUITE A3 (Withdrawn)	

	Cash Credit	Long Term	9.10	ACUITE BBB- Stable (Reaffirmed)
01 Feb 2018	Cash Credit	Long Term	9.10	ACUITE BBB- Stable (Reaffirmed)
	Secured Overdraft	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)
	Bills Discounting	Short Term	5.00	ACUITE A3 (Reaffirmed)
	Bills Discounting	Short Term	5.00	ACUITE A3 (Assigned)
	Bank 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)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
HDFC Bank Ltd	Not Applicable	Bills Discounting	Not Applicable	Not Applicable	Not Applicable	50.00	ACUITE A3+ Reaffirmed
CSB Bank Limited	Not Applicable	Bills Discounting	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE A3+ Reaffirmed
State Bank of India	Not Applicable	Bills Discounting	Not Applicable	Not Applicable	Not Applicable	3.00	ACUITE A3+ Reaffirmed
Union Bank of India	Not Applicable	Bills Discounting	Not Applicable	Not Applicable	Not Applicable	12.00	ACUITE A3+ Reaffirmed
HDFC Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	20.00	ACUITE BBB Stable Reaffirmed
CSB Bank Limited	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	0.50	ACUITE BBB Stable Reaffirmed
Union Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	14.00	ACUITE BBB Stable Reaffirmed
State Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	3.56	ACUITE BBB Stable Reaffirmed
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	3.43	ACUITE BBB Stable Reaffirmed
Not Applicable	Not Applicable	Proposed Short Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	8.00	ACUITE A3+ Reaffirmed
CSB Bank Limited	Not Applicable	Secured Overdraft	Not Applicable	Not Applicable	Not Applicable	7.50	ACUITE BBB Stable Reaffirmed
HDFC Bank Ltd	Not Applicable	Term Loan	16-06-2021	7.95	15-03-2023	4.03	ACUITE BBB Stable Reaffirmed
HDFC Bank Ltd	Not Applicable	Term Loan	16-06-2021	7.95	15-03-2027	5.73	ACUITE BBB Stable Reaffirmed
State Bank of India	Not Applicable	Term Loan	30-12-2020	8.1	31-12-2031	4.20	ACUITE BBB Stable Reaffirmed
		Working					ACUITE

State Bank of India	Not Applicable	Capital Term Loan	30-03-2020	7.4	11-08-2021	0.23	BBB Stable Reaffirmed
State Bank of India	Not Applicable	Working Capital Term Loan	12-08-2020	7.4	11-07-2024	0.79	ACUITE BBB Stable Reaffirmed
HDFC Bank Ltd	Not Applicable	Working Capital Term Loan	16-06-2021	7.5	15-06-2022	0.59	ACUITE BBB Stable Reaffirmed
HDFC Bank Ltd	Not Applicable	Working Capital Term Loan	16-06-2021	7.50	15-06-2024	2.76	ACUITE BBB Stable Reaffirmed
Union Bank of India	Not Applicable	Working Capital Term Loan	12-11-2020	8	11-04-2022	0.91	ACUITE BBB Stable Reaffirmed
Union Bank of India	Not Applicable	Working Capital Term Loan	12-11-2020	7.5	11-10-2024	3.77	ACUITE BBB Stable Reaffirmed

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About Acuité Ratings & Research

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