

Press Release

Shekhawati Geotech Private Limited

January 24, 2019

Rating Upgraded



Total Bank Facilities Rated*	Rs. 14.00 Cr.
Long Term Rating	ACUITE A- / Outlook: Positive (Upgraded from ACUITE BBB+/Stable)

* Refer Annexure for details

Rating Rationale

Acuite has upgraded the long-term rating to '**ACUITE A-**' (read as **ACUITE A minus**) from '**ACUITE BBB+**' (read as **ACUITE triple B plus**) to the Rs. 14.00 crore bank facilities of Shekhawati Geotech Private Limited (SGPL; part of the Kejriwal group). The outlook is '**Positive**'.

The rating upgrade reflects healthy revenue growth and financial risk profile of the Kejriwal Group. The revenues of the company has increased to Rs.702.02 crore for FY2018 from Rs.650.92 crore in FY2017 and Rs.608.09 crore in FY2016. Further, the production capacity has also increased by 60 percent in KGPL resulting in growth in revenues. Acuite expected the revenues to grow in near to medium term. Further, it is expected that the financial risk profile and debt protection metrics of the company to remain healthy with adequate liquidity position.

The Surat based, SGPL was incorporated in 2011 and commenced commercial operations from November, 2016. The company is engaged in manufacturing of air texturised yarn. The company has ten texturising machines with an installed capacity of 9,000 tonne per annum. The company is a part of Kejriwal Group comprising Kejriwal Industries Limited (KIL), Kejriwal Dyeing and Printing Mills Private Limited (KDPL), Kejriwal Geotech Private Limited (KGPL) and Shekhawati Geotech Private Limited (SGPL) and Gee Filaments Private Limited (GFPL).

KIL, incorporated in 2001, manufactures polyester filament yarn, polyester dyed yarn, and polyester textured yarn. KDPL, incorporated in 2004, is a fabric-processing house with a synthetic fabric dyeing facility. KGPL commenced operations from 2012 and manufactures partially oriented yarn (POY) and fully drawn yarn (FDY). SGPL, which commenced operations in November 2016, is engaged in texturising yarn.

Analytical Approach

Acuite has considered the consolidated business and financial risk profiles of KIL, KDPL, KGPL, SGPL and GFPL, collectively referred to as 'Kejriwal Group'. The consolidation is on account of common management, same value chain with business line synergies within the group and management stated posture of extending support within the group companies. Extent of Consolidation: Full.

Key Rating Drivers

Strengths

- Established market position and partly integrated operations in the growing PFY (Polyester filament yarn) segment**

The group has an established presence of more than two decades in the polyester yarn industry; catering to a wide clientele base in India and abroad. The company is one of the few large integrated players with presence across various product segments including PFY, FDY and DTY, among others.

The promoters of the group, Mr. Girdhari Kejriwal (Director) has more than two decades of experience in the manufacturing of yarn and Mr. Chandra Kejriwal (Director) possesses more than a decade's experience in the yarn and textile industry. Over the years, the promoters have built strong customer base, resulting in repeat orders and has also ventured into global markets.

The group has healthy operating efficiency, driven by the integrated nature of its operations. The same is also reflected through its moderate operating margin which has remained in the range of 9-10 percent during the last three years. Also, the promoters' established presence is reflected through its healthy customer base and favorable credit terms extended to customers. Kejriwal Group extends a credit of around 30-45 days to its customers. Kejriwal Group's plant at Surat is fully integrated with Oerlikon Barmag technology for Partially Oriented Yarn and Fully Drawn Yarn.

Kejriwal Group markets its products under the name 'Kejriwal'. The group has a wide product profile in the polyester yarn industry and has diversified into value-added products and synthetic fibre processing. It started with a texturising unit and later backward integrated into manufacturing of partially oriented yarn (POY) under KGPL, thus, improving the operating margin. The integrated nature of operations also allows better inventory management. Kejriwal Group stocks around 30 days of raw material and 10 days of finished goods, thereby maintaining just in time inventory. Acuite believes that Kejriwal Group is likely to continue to benefit from its promoters' extensive experience in the industry.

• **Healthy revenue growth**

Kejriwal Group's revenues have grown to Rs.702.02 crore in FY2018 from Rs.650.92 crore in FY2017 and Rs.608.09 crore in FY2016. Over the years, the company has built a wide network and healthy trade relations with domestic as well as overseas clients. Further, the capacity has also increased by 60 percent in KGPL resulting in growth in revenues. Kejriwal group currently utilises its capacity to the extent of 60-70 percent and therefore, Acuite expects that the group will record healthy revenue growth over the medium term on account of increase in capacity utilisation. Polyester Yarn has gained in popularity than the other man-made fibers due to its superior properties and affordability which is prompting a shift from cotton to polyester. High economic growth as well as rapid urbanisation in India has resulted in higher disposable income leading to higher purchasing power of consumers in the past decade. Thus, Acuite expects a sustainable growth in revenues coupled with moderate operating profitability over the medium term.

• **Healthy financial risk profile**

Kejriwal Group has healthy financial risk profile marked by healthy net worth, low gearing and healthy debt protection matrix. The net worth stood at Rs.210.30 crore as on March 31, 2018, which has witnessed sequential improvement from Rs.153.82 crore as on March 31, 2016. The accretion to net worth was mainly on account of steady operating profitability leading to higher accretion to reserves.

Kejriwal Group has followed a conservative financial policy in the past as reflected by its peak gearing of 0.73 times over the last three years through 2017-18. The gearing of the group stood at 0.56 times, as on March 31, 2018. The total outside liabilities to tangible net worth ratio also stood low at around 0.84 times as on March 31, 2018. Kejriwal group's total debt of Rs.118.58 crore as on March 31, 2018 (Rs.59.18 crore as on March 31, 2017) includes term loans (current and non-current portion) of Rs.61.66 crore, unsecured loans from promoters Rs.4.02 crore and working capital borrowings of Rs.52.91 crore. Out of the total term loans, ~Rs.21.30 crore comprises foreign currency term loans (external commercial borrowings). The proportion of foreign currency term loan has helped in keeping the interest costs under control. The company has been funding its capex through a mix of internal accruals and term loans which has resulted in increase in term borrowings.

The group has recorded healthy revenue growth coupled with moderate operating margin, resulting in healthy debt protection metrics. The interest coverage ratio (ICR) of the group stood healthy at around 6.97 times as on 31 March, 2018 and the net cash accruals to total debt stood moderate at 0.43 times as on March 31, 2018. The debt service coverage ratio (DSCR) stood at 2.30 times for FY2018. The company's annual net cash accruals (PAT + Depreciation) were ~Rs.50.79 crore for FY2018 and expected to be ~Rs.61.43 crore as against which it had annual repayment obligations is of ~Rs.6.23 crore.

Acuite believes that Kejriwal Group will maintain a healthy financial risk profile on the back of gradual growth in revenue, sustenance of its profitability margins and conservative financial policy.

Weaknesses

• **Intensive competition in the polyester industry**

Kejriwal Group operates in a cyclical and fragmented Polyester industry marked by presence of various organised players. It faces competition from other leading larger players, who have been well entrenched players in the industry, which limits the group's bargaining power. Also, Polyester fiber faces competition from other fibres such as cotton present in the market which also continues to be critical.

• Susceptibility of operating margin to volatility in raw material prices

Kejriwal group deals in variety of products comprising POY, FDY, DTY and other varieties of yarn. The major raw materials of Kejriwal group are polyester chips, which are produced from derivatives of crude oil. Hence, the prices of these products are impacted by the volatility in crude oil prices. The inherent volatility in the crude oil prices coupled with such temporary imbalances in global demand-supply situations lead to volatility in the raw material supplies and prices. Besides, the impact of exchange rates on the company's operating performance, the company's performance will also be impacted due to a large proportion of foreign currency borrowings in its debt profile. Since a part of these borrowings are unhedged, any sharp depreciation in the rupee will adversely impact the cash flows and profitability of the company.

Acuite believes that Kejriwal group will be more impacted by crude oil price spikes, mainly because the fluctuations in crude prices influence the prices of their major raw materials. Secondly, in the event of a sharp spike in crude prices, the likelihood of a depreciation of the rupee also increases (due to adverse impact on trade deficit).

Acuite believes that the ability of the management to manage raw material volatility and timely hedging of foreign currency exposures will be crucial to the maintenance of a stable credit profile.

Liquidity Position

Kejriwal group has adequate liquidity marked by healthy net cash accruals to its maturing debt obligations. The group generated cash accruals of Rs.45.00-50.00 crore during the last three years through 2017-18, while its maturing debt obligations were in the range of Rs.10.00-15.00 crore over the same period. The cash accruals of the group are estimated to remain around Rs.50.00-60.00 crore during 2019-21, while its repayment obligations are estimated to be around Rs.13.00-14.00 crore. The group's operations are relatively less working capital intensive as marked by Gross Current Assets (GCA) of 92 days in FY2018.

This has led to lower reliance on working capital borrowings, the cash credit limit in the group remains utilised at 65 percent during the last 12-month period ended December 2018. The group maintains unencumbered cash and bank balances of Rs.1.09 crore as on March 31, 2018. The current ratio of the group stood healthy at 1.67 times as on March 31, 2018. The group is in capex process of Rs.75 – 80 crore over the medium which is likely to be funded by equity and external borrowing in the ratio of 1:3. Acuite believes that the liquidity of the group is likely to remain adequate over the medium term on account of healthy cash accrual and no major repayments over the medium term.

Outlook: Positive

Acuite believes that the outlook on Kejriwal group's rated facilities is 'Positive' over the medium term. The rating may be upgraded if the company continues to register healthy growth in revenues on the back of increased capacity utilisation while maintaining the operating profitability. Conversely, the outlook may be revised to 'Stable' in case of lower than anticipated growth in revenues, weakening of profitability margins or if financial risk profile deteriorates owing to higher-than-expected increase in debt-funded working capital requirements or capex.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	702.02	650.92	608.09
EBITDA	Rs. Cr.	70.29	66.32	40.77
PAT	Rs. Cr.	28.32	27.71	4.86
EBITDA Margin	(%)	10.01	10.19	6.71
PAT Margin	(%)	4.03	4.26	0.80
ROCE	(%)	17.46	19.32	8.62
Total Debt/Tangible Net Worth	Times	0.56	0.33	0.73
PBDIT/Interest	Times	6.97	6.59	3.58
Total Debt/PBDIT	Times	1.61	0.81	2.46
Gross Current Assets (Days)	Days	92	57	74

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>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>
- Consolidation of Companies - <https://www.acuite.in/view-rating-criteria-22.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. Cr.)	Ratings/Outlook
17-Feb-2018	Cash Credit	Long Term	5.00	ACUITE BBB+ / Stable (Reaffirmed)
	Term loans	Long Term	8.50	ACUITE BBB+ / Stable (Reaffirmed)
	Proposed	Long Term	0.50	ACUITE BBB+ / Stable (Reaffirmed)
14-Nov-2016	Cash Credit	Long Term	5.00	ACUITE BBB- / Stable (Assigned)
	Term loans	Long Term	8.50	ACUITE BBB- / Stable (Assigned)
	Proposed	Long Term	0.50	ACUITE BBB- / Stable (Assigned)

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	6.75	ACUITE A- / Positive (upgraded from ACUITE BBB+/Stable)
Term loans	Not Applicable	Not Applicable	Not Applicable	7.25	ACUITE A- / Positive (upgraded from ACUITE BBB+/Stable)

Contacts

Analytical	Rating Desk
<p>Aditya Gupta Head - Corporate and Infrastructure Sector Ratings Tel: 022-49294041 aditya.gupta@acuite.in</p> <p>Disha Parmar Analyst - Rating Operations Tel: 022-49294064 disha.parmar@acuiteratings.in</p>	<p>Varsha Bist Manager - Rating Desk Tel: 022-67141160 rating.desk@acuite.in</p>

About Acuité Ratings & Research:

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