

Press Release

Shristi Cotspin Private Limited (SCPL)

01 February 2018

Rating Assigned



Total Bank Facilities Rated*	Rs. 29.66 Cr.
Long Term Rating	SMERA BB/ Outlook: Stable
Short Term Rating	SMERA A4+

** Refer Annexure for details*

Rating Rationale

SMERA has assigned long term rating of '**SMERA BB**' (read as **SMERA double B**) and short term rating of '**SMERA A4+**' (read as **SMERA A four plus**) on the Rs. 29.66 crore bank facilities of Shristi Cotspinn Private Limited (SCPL). The outlook is '**Stable**'.

Shristi Cotspinn Private Limited (SCPL) established in 2005 as a private limited entity is engaged in the manufacturing of yarn and fabrics. The promoters of the company were previously engaged in the trading of hosiery yarn from 1970. The company has installed capacity of 16800 spindles and 708 rotors out of which current utilisation stands at 98 percent. The company caters to markets in Tamil Nadu and West Bengal. Besides, it exports about 37 percent of its products to Sri Lanka, Bangladesh and China.

Key rating drivers

Strengths

Established track record of operations, experienced management

SCPL, established in 2005 has established presence in the cotton yarn manufacturing business for more than a decade. The company has long standing relations with customers and suppliers. The promoters of the company, Mr. Shyamlal Agarwala, Mr. Manoj Kumar Jhaharia, Mr. Arun Kumar Jhaharia and others were previously engaged in the trading of hosiery yarn from 1970.

Modest scale of operations

SCPL operates on a modest scale with operating income of Rs.67.64 crore during FY2016-17 compared to Rs.70.26 crore in the previous year. The revenue decline is due to muted demand and increase in the price of cotton yarn. During April 2017 to November 2017, the company registered revenue of Rs.38.20 crore (domestic sales stood at Rs.32.49 and export sales at Rs.5.71 crore). Further, the company has export orders worth Rs.5.14 crore to be executed by December 2017.

Weaknesses_____

Working capital intensive operations

The company has working capital intensive operations marked by high Gross Current Asset Days (GCA) of 155 as on 31 March, 2017 as against 132 days in the previous year. The increase is owing to rise in inventory days to 105 as on 31 March, 2017 as against 82 days in the previous year. However, the inventory increased due to the stocking of raw cotton - a seasonal crop. Further, the debtor days stood at 47 for FY2016-17.

Average financial risk profile

The financial risk profile of the company is average marked by modest networth, gearing levels and comfortable debt protection metrics. The networth stood at Rs.13.11 crore as on 31 March, 2017 as against Rs.12.00 crore in the previous year. The gearing stood at 1.91 times as on 31 March, 2017 as against 2.21 crore in the previous year. The total debt portion of Rs.25.04 crore consists of term loan of Rs.5.11 crore, unsecured loans of Rs.4.14 crore and short term borrowings of Rs.12.40 crore. The Interest Coverage Ratio stood at 3.23 times for FY2017 as against 3.43 times in the previous year due to decrease in long term debt.

Declining trend of operating profitability

SCPL reported declining trend in operating profitability as the same stood at 11.04 percent in FY2017 compared to 12.31 percent in the previous year. The decline is mainly on account of increase in raw material cost as a percentage of total sales. The raw material cost stood at ~65.75 percent in FY2017 as against 63 percent in the previous year. The company has not been able to pass on the increase in raw material price entirely to its customers due to limited bargaining power. The prices of the main raw material i.e. cotton is highly volatile as the same is heavily dependent on the monsoon and government regulations (Minimum support price). Hence, adverse movements in cotton prices can significantly impact profitability.

Analytical approach:

SMERA has considered the standalone business and financial risk profiles of the company.

Outlook – Stable

SMERA believes that SCPL will maintain a Stable outlook over the medium term on the back of its established operational track record and experienced management. The outlook may be revised to 'Positive' in case the company registers improved profit margins or financial risk profile. Conversely the outlook may be revised to 'Negative' in case of high working capital requirements increasing pressure on margins or deterioration in the financial risk profile.

About the Rated Entity – Key Financials

Particulars	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	67.64	70.26	68.29
EBITDA	Rs. Cr.	7.47	8.65	8.75
PAT	Rs. Cr.	1.11	1.41	1.00
EBITDA Margin	(%)	11.04	12.31	12.76
PAT Margin	(%)	1.64	2.01	1.46
ROCE	(%)	9.34	11.71	24.57
Total Debt/Tangible Net Worth	Times	1.91	2.21	2.59
PBDIT/Interest	Times	3.23	3.43	2.67
Gross Current Assets	Days	155	132	107

Any other information:

Not Applicable

Applicable Criteria

- Infrastructure Entities - <https://www.smera.in/criteria-infrastructure.htm>
- Default Recognition - <https://www.smera.in/criteria-default.htm>
- Application Financial Ratios and Adjustments - <https://www.smera.in/criteria-fin-ratios.htm>

Note on complexity levels of the rated instrument

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

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

None

Rating History (Upto last three years)

Not Applicable

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	4.00*	SMERA BB/ Stable
Term Loan	Not Applicable	Not Applicable	Not Applicable	5.40**	SMERA BB/ Stable
PSCFC	Not Applicable	Not Applicable	Not Applicable	5.00	SMERA A4+
Combined ODH/ODBD	Not Applicable	Not Applicable	Not Applicable	6.00***	SMERA BB/ Stable
Term Loan	Not Applicable	Not Applicable	Not Applicable	1.42	SMERA BB/ Stable
Cash Credit	Not Applicable	Not Applicable	Not Applicable	2.00#	SMERA BB/ Stable
Term Loan	Not Applicable	Not Applicable	Not Applicable	5.44	SMERA BB/ Stable
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	0.30	SMERA A4+
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	0.10	SMERA A4+

* Includes sub limits of PC/PCFC to the extent Rs.4.00 crore and FDBP to the extent of Rs.4.00 crore

** Includes sub limits of Import LC to the extent of Rs.3.75 crore.

*** Includes sub limits of PCL to the extent of Rs.0.50 crore, FCNR-B (WC) to the extent of Rs.2.00 crore, LCBD to the extent of Rs.0.30 crore, PCFC to the extent of Rs.4.00 crore, FDBP to the extent of Rs.4.00 crore

Includes sub limits of PSFC to the extent Rs.2.00 crore and Foreign Documentary Bill Purchased to the extent of Rs.2.00 crore

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ABOUT SMERA

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