

Press Release

SHRISTI COTSPINN PRIVATE LIMITED

April 11, 2019

Rating Reaffirmed



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

* Refer Annexure for details

Rating Rationale

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

Reaffirmation of the rating reflects moderate financial risk profile supported by promoters presence in the industry for over two decades. However, the ratings are partly constrained by volatile revenues and profitability, modest scale and working capital intensive operations.

SCPL, a Coimbatore based company incorporated in 1995 is engaged in manufacturing of cotton yarn and fabrics. The promoters of the company were previously engaged in trading of hosiery yarn from 1970. The company has 16,800 spindles and 708 rotors and produces yarn of count ranging from 35's to 50's.

Analytical Approach

Acuite has considered the standalone business and financial risk profile of SCPL to arrive at this rating.

Key Rating Drivers

Strengths

Established track record of operations and experienced management

SCPL was incorporated in 1995 as a private limited company. The company has established presence in the cotton yarn manufacturing business of more than two decades leading to healthy relations with its customers and suppliers. The promoters of the company, Mr. Shyamlal Agarwala, Mr. Manoj Kumar Jhajharia, Mr. Arun Kumar Jhajharia and Mr. Pramod Kumar Jhajharia are in the textile segment since 1970's as they initially started with trading of hosiery yarn.

Moderate financial risk profile

The company has a moderate financial risk profile which is marked by moderate gearing (debt to equity ratio), total outside liabilities to total net worth (TOL/TNW), and debt protections metrics though partly constrained by modest net worth. Gearing is moderate at 1.90 times as on 31 March, 2018 as against 1.91 times as on 31 March, 2017. TOL/TNW is moderate at 2.32 times as on 31 March, 2018 as against 2.27 times as on 31 March, 2017. Net worth is modest at Rs.13.96 crore as on 31 March, 2018 as against Rs.13.11 crore as on 31 March, 2017. Of the total debt of Rs.26.52 crore, as on 31 March, 2018, long term debt is Rs.7.72 crore, unsecured loans is Rs. 4.09 crore and short term debt is Rs.14.71 crore. Debt protection metrics of interest coverage ratio and net cash accruals to total debt are moderate at 2.92 times and 0.18 times respectively in FY2018. Acuite believes that with no changes in unsecured loans and debt funded capital expenditure in coming years, the financial risk profile is expected to improve marginally over the medium term.

Weaknesses

Modest scale of operations and decline in profitability

Revenues of the company are modest and declined to Rs.63.05 crore during FY 2017-18 compared to Rs.67.64 crore in FY 2016-17 and Rs.70.26 crore in FY 2015-16. This is mainly on account of muted demand and competition in the industry. However, the company has reported a revenue of Rs.65.03 crore in 9MFY2019 and is expected to generate a revenue of Rs.88 crore in FY2019. Operating margins declined from 12.31 percent in FY2016 to 11.04 percent in FY2017 and 10.94 percent in FY2018. Acuite believes that the ability of the company to improve the scale of operations while maintaining stable operating margins would be the key rating sensitivity factor over the medium term.

Working capital intensive nature of operations

The company has working capital intensive nature of operations marked by high Gross Current Asset (GCA) of 185 days in FY2018 as against 155 days in FY2017. The reason for increase in the same is due to increase in inventory and debtors to 122 days and 64 days in FY2018 as against 105 days and 47 days in FY2017, respectively. However, the reason for increase in inventory is due to procurement of raw cotton as it is a seasonal crop. Further, the average working capital bank limit utilisation stood at 30-50 percent for last six month ending December 2018. Cotton is available seasonally; however, manufacturing and sales operations are carried out throughout the year. Hence, Acuite believes that the operations shall continue to be working capital intensive over the medium term.

Highly competitive and fragmented industry

SCPL operates in the highly competitive cotton industry with several unorganised players. Also, the shortage in availability of cotton resulting in increase in the prices of the cotton, limits the bargaining power of the company.

Liquidity Position:

Liquidity of the company is moderate marked by moderate cash accruals against repayment obligations. It has reported cash accruals of Rs.4.66 crore in FY2018. NCA is expected to be in the range of Rs.6.55 crores to Rs.10.45 crore against its minimal repayment obligations of Rs.1.50 crore to Rs.1.67 crore over the medium term. Operations are working capital intensive operations due to high debtors and inventory with GCA of 185 days. Moderate accruals lead to lower utilisation of its bank lines at about 30-50 per cent over six months through December 2018. Acuite believes that the liquidity profile continues to be moderate marked by modest accruals, vis-à-vis its repayment obligations, and incremental working capital requirements.

Outlook: Stable

Acuite believes that SCPL will maintain 'Stable' outlook in the medium term on account of the company's established market position in the cotton yarn industry. The outlook may be revised to 'Positive' in case the company registers substantial increase in its profitability margins supported by healthy revenue growth. Conversely, the outlook may be revised to 'Negative' in case of sharp decline in the company's profitability margins or significant deterioration in the financial risk profile due to debt-funded capital expenditure or elongated working capital cycle.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	63.05	67.64	70.26
EBITDA	Rs. Cr.	6.90	7.47	8.65
PAT	Rs. Cr.	0.88	1.11	1.41
EBITDA Margin	(%)	10.94	11.04	12.31
PAT Margin	(%)	1.40	1.64	2.01
ROCE	(%)	8.37	9.34	23.19
Total Debt/Tangible Net Worth	Times	1.90	1.91	2.21
PBDIT/Interest	Times	2.92	3.23	3.43
Total Debt/PBDIT	Times	3.73	3.28	3.04
Gross Current Assets (Days)	Days	185	155	132

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

None

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>

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
01-Feb-2018	Cash Credit	Long Term	4.00*	ACUITE BB/ Stable (Assigned)
	Term Loan	Long Term	5.40**	ACUITE BB/ Stable (Assigned)
	PSCFC	Short Term	5.00	ACUITE A4+ (Assigned)
	ODH/ODBD	Long Term	6.00***	ACUITE BB/ Stable (Assigned)
	Term Loan	Long Term	1.42	ACUITE BB/ Stable (Assigned)
	Cash Credit	Long Term	2.00#	ACUITE BB/ Stable (Assigned)
	Term Loan	Long Term	5.44	ACUITE BB/ Stable (Assigned)
	Bank Guarantee	Short Term	0.30	ACUITE A4+ (Assigned)
	Bank Guarantee	Short Term	0.10	ACUITE A4+ (Assigned)

* 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.

***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	4.00*	ACUITE BB/ Stable (Reaffirmed)
Term Loan	Not Applicable	Not Applicable	Not Applicable	5.40	ACUITE BB/ Stable (Reaffirmed)
PSCFC	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE A4+ (Reaffirmed)
ODH/ODBD	Not Applicable	Not Applicable	Not Applicable	6.00**	ACUITE BB/ Stable (Reaffirmed)
Term Loan	Not Applicable	Not Applicable	Not Applicable	1.42	ACUITE BB/ Stable (Reaffirmed)

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	7.00***	ACUITE BB/ Stable (Reaffirmed)
Term Loan	Not Applicable	Not Applicable	Not Applicable	0.44	ACUITE BB/ Stable (Reaffirmed)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	0.30	ACUITE A4+ (Reaffirmed)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	0.10	ACUITE A4+ (Reaffirmed)

*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 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

***Includes sub limits of PSFC to the extent Rs.7.00 crore and Foreign Documentary Bill Purchased to the extent of Rs.7.00 crore

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About Acuite Ratings & Research:

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