

Press Release

Shristi Cotspin Private Limited

May 15, 2020



Rating Reaffirmed, Assigned and Withdrawn

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

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed, assigned and withdrawn the long term rating of '**ACUITE BB**' (**read as ACUITE double B**) and the short term rating of '**ACUITE A4+**' (**read as ACUITE A four**) to the above mentioned bank facilities of Rs.29.66 Cr. for Shristi Cotspinn Private Limited (SCPL). The outlook is '**Stable**'.

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 720 rotors and produces yarn of count ranging from 30's to 50's.

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of Shristi Cotspinn Private Limited (SCPL) to arrive at the rating.

Key Rating Drivers

Strengths

• Experienced management and establish track record of operations

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 longstanding 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. The extensive experience of the promoters has helped company to grow, which can be seen through increase in revenues in FY2019 stood which stood at Rs. 88.35 crore as against Rs. 63.05 crore in FY2018. The revenues stood at Rs.83.44 Cr. for FY2020 (Provisional). Acuité believes the company will benefit from the experienced management and establish presence in textile industry.

• 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. Gearing stood moderate at 1.68 times as on 31 March, 2019 as against 1.29 times as on 31 March, 2018. TOL/TNW is moderate at 1.94 times as on 31 March, 2019 as against 1.63 times as on 31 March, 2018. Net worth is moderate at Rs.19.44 crore as on 31 March, 2019 as against Rs.17.66 crore as on 31 March, 2018. The networth includes quasi capital in form of unsecured loans of Rs.3.70 Crore. Total debt of Rs.26.52 crore, as on 31 March, 2019, consist of long term debt is Rs.6.75 crore and short term debt is Rs.25.99 crore. Debt protection metrics of interest coverage ratio and net cash accruals to total debt are moderate at 2.67 times and 0.14 times respectively in FY2019.

Acuité believes the financial risk profile of the company will be moderate backed by improving scale of operations and moderate level of debt funded capex plan.

Weaknesses

• Working capital intensive nature of operations

The company has working capital intensive nature of operations marked by high Gross Current Asset (GCA) of 169 days in FY2019 as against 185 days in FY2018. The inventory and debtors days stood at 105 days and 62 days in FY2019 as against 122 days and 64 days in FY2018, respectively. However, the reason for high inventory holding is due to procurement of raw cotton as it is a seasonal crop. Further, the average working capital bank limit utilisation stood at 75.00 percent for last six month ending March 2020. Cotton is available seasonally; however, manufacturing and sales operations are carried out throughout the year. Hence, Acuité 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 marked by several mid-size organized and 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. The same is reflected through decline in operating margins which stood at 8.41 in FY2019 as against 10.94 percent in FY2018. However, PAT margins have also stood improved to 2.01 per cent in FY2019 against 1.40 per cent in FY2018. The margins still remain susceptible to raw material prices i.e. cotton and constrain by limited bargaining power with its customer's due to intense competition.

Rating Sensitivities

- Scaling up of operations while maintaining their margins
- Sustaining existing financial risk profile and liquidity
- Efficient management of working capital cycle and debt protections metrics

Liquidity Position: Adequate

Liquidity of the company is adequate marked by moderate cash accruals against repayment obligations. It has reported cash accruals of Rs.4.43 crore as against repayment obligation of Rs.2.97 crore in FY2019. Net cash accruals are expected to be in the range of Rs.4.50 crores to Rs.5.00 crore against its minimal repayment obligations of Rs.2.00 crore to Rs.2.50 crore over the medium term. Operations are working capital intensive operations due to high debtors and inventory with GCA of 169 days. Moderate accruals lead to moderate utilisation of its bank lines at about 75.00 per cent over six months through March 2020. The current ratio of the company stood at 1.23 times as on 31, March 2019. Acuité believes that the liquidity profile continues to be adequate marked by moderate accruals, vis-à-vis its repayment obligations, and incremental working capital requirements.

Outlook: Stable

Acuité 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	FY19 (Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	88.35	63.05
PAT	Rs. Cr.	1.78	0.88
PAT Margin	(%)	2.01	1.40
Total Debt/Tangible Net Worth	Times	1.68	1.29
PBDIT/Interest	Times	2.67	2.92

Any other information

Not Applicable

Applicable Criteria

- Manufacturing Entities- <https://www.acuite.in/view-rating-criteria-59.htm>
- Trading entities-<https://www.acuite.in/view-rating-criteria-61.htm>
- Application of Financial Ratios and Adjustments- <https://www.acuite.in/view-rating-criteria-53.htm>
- Default Recognition- <https://www.acuite.in/view-rating-criteria-52.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. Cr.)	Ratings/Outlook
11-Apr-2019	Cash Credit	Long Term	4.00*	ACUITE BB/ Stable (Reaffirmed)
	Term Loan	Long Term	5.40	ACUITE BB/ Stable (Reaffirmed)
	PSCFC	Short Term	5.00	ACUITE A4+ (Reaffirmed)
	ODH/ODBD	Long Term	6.00**	ACUITE BB/ Stable (Reaffirmed)
	Term Loan	Long Term	1.42	ACUITE BB/ Stable (Reaffirmed)
	Cash Credit	Long Term	7.00***	ACUITE BB/ Stable (Reaffirmed)
	Term Loan	Long Term	0.44	ACUITE BB/ Stable (Reaffirmed)
	Bank Guarantee	Short Term	0.30	ACUITE A4+ (Reaffirmed)
	Bank Guarantee	Short Term	0.10	ACUITE A4+ (Reaffirmed)
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. Crore)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	4.00*	ACUITE BB/ Stable (Reaffirmed)
Term Loan	DEC-2017	Not Applicable	Nov - 2023	4.35	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	DEC-2017	Not Applicable	Nov - 2023	0.61	ACUITE BB/ Stable (Reaffirmed)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	7.00***	ACUITE BB/ Stable (Reaffirmed)
Term Loan	Not Available	Not Applicable	Not Available	0.44	ACUITE BB/ Stable (Withdrawn)
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)
FDBP/FUDBP	Not Applicable	Not Applicable	Not Applicable	2.30	ACUITE A4+ (Assigned)

*Includes sub limits of PC/PCFC to the extent of 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

Contacts

Analytical	Rating Desk
Aditya Gupta Head - Corporate and Infrastructure Sector Ratings Tel: 022-49294041 aditya.gupta@acuite.in	Varsha Bist Manager - Rating Desk Tel: 022-49294011 rating.desk@acuite.in
Rupesh Patel Senior Analyst - Rating Operations Tel: 022 49294044 rupesh.patel@acuite.in	

About Acuité Ratings & Research:

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