

Press Release

Shristi Cotspinn Private Limited

August 16, 2021

Rating Upgraded, Reaffirmed and Withdrawn



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Long Term Rating	ACUITE BB+/ Outlook: Stable (Upgraded from BB/Stable; Withdrawn)
Short Term Rating	ACUITE A4+ (Reaffirmed; Withdrawn)

* Refer Annexure for details

Rating Rationale

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

The Acuite has upgraded and withdrawn its long term rating to '**ACUITE BB+**' (read as **ACUITE double 'B plus'**) from '**ACUITE BB**' (read as **ACUITE double 'B'**) on previously assigned facility of Rs.0.61 crores as per request of the company and confirmation from the banker in accordance with Acuite's withdrawal policy.

The Acuite has reaffirmed and withdrawn its short term rating of '**ACUITE A4+**' (read as **ACUITE A four 'plus'**) on previously assigned facility of Rs.0.40 crores as per request of the company and confirmation from the banker in accordance with Acuite's withdrawal policy.

Reason for rating upgradation

The rating upgrade is primarily driven by the improvement in scale of operations marked by the improvement in the profitability margins and financial risk profile of the company in FY2021. SCPL has been able to grow its revenue in the FY2021 on the back of continuous and repetitive orders from domestic and majorly from the international customers and has recorded operating income of Rs.104.68 Cr in FY2021 (Prov) as against Rs.83.88 Cr in FY2020. The company has maintained its performance in FY2022 as evident from the revenue generated in Q1 of FY2022. The revenue was recorded at Rs.61.68 Cr in first quarter of FY2022 against Rs.8.00 Cr in Q1 of FY2021. Despite the slowdown in economy during the FY2021 due to the outbreak of Covid-19 pandemic, SCPL has remained resilient and demonstrated improvement in its profitability margins and recorded operating profit (EBITDA) margin and net profit margin of 8.83 per cent and 3.87 per cent, respectively, in FY2021 (Prov) as against 8.41 percent and 1.78 per cent, respectively, in FY2020. Besides, there is an improvement in the debt-coverage indicators. The interest coverage ratio has improved to 4.32 times as on March 31, 2021 (Prov) as against 2.73 times as on March 31, 2020 and debt service coverage ratio has improved to 2.39 times as on March 31, 2021 (Prov) as against 1.26 times as on March 31, 2020. The working capital management of the company is moderate in nature as evident from GCA days of 192 days, thereby, resulting in moderate dependence on working capital limits with average utilization being around ~60 percent. The company has availed long term debt for capital expenditure into modernization of its machinery for improvement in the quality of yarn produced. Besides, SCPL has focused on reduction in power cost by installation of roof top solar panel in FY2021 for efficient power utilization and cost reduction. However, the leverage position of the company has deteriorated as evident from the deterioration in the gearing to 1.55 times as on March 31, 2021 (Prov) from 1.33 times as on March 31, 2020 on account of increase in long term debt on account of availing covid-19 loan during the period. The gearing is expected to further deteriorate on account of debt-funded capex plan in progress and sanction of other short term working capital facility by the lenders in FY2022. Net worth of the company has improved and stood at Rs.23.79 Cr as on March 31, 2021 (Prov) as against Rs.19.59 Cr as on March 31, 2020 on account of accretions of net profit to the reserves during the period.

About the company

Shristi Cotspinn Private Limited (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

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

Key Rating Drivers

Strengths

- **Established track record of operation and experience management; decent order book providing near term revenue visibility**

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 top management is ably supported by a well-qualified and experienced second line of management. The extensive experience of the promoters has helped company to grow, which can be seen through increase in revenues in FY2021 (Prov) which stood at Rs. 103.48 crore as against Rs. 83.43 crore in FY2020. The revenues stood at Rs.61.68 Cr in Q1FY2022 (Provisional) against Rs.8.00 Cr in Q1FY2021. The company exports about ~25 percent of its products to countries like Bangladesh, Sri Lanka and Vietnam. SCPL's revenue visibility is further accentuated by a moderate unexecuted order book from international customer of about \$7.75 Million (around Rs.57.0-58.0 Cr) as on July 31, 2021 to be executed in FY2022, thereby, providing near term revenue visibility. Besides, majority of the domestic orders received are spot orders and are executed within the same period. Acuite believes that the promoter's extensive industry experience in cotton yarn industry, established relationships with its customers and suppliers, ongoing capex and moderate unexecuted order book will aid SCPL's business risk profile over the medium term.

- **Moderate financial risk profile**

SCPL's financial risk profile is moderate, marked by a moderate network and gearing along with improving debt protection metrics. The EBITDA margins of the company improved to 8.83 per cent in FY2021 (Prov) against 8.41 in FY2020. The improvement is attributable to decrease in power cost on account of installation of solar panel, decrease in raw material on account of purchase of cotton at lower rate during the seasonal time and pandemic period. The PAT margins of the company has improved to 3.87 per cent in FY2021 (Prov) against 1.78 per cent in FY2020 on account of improvement in operational metrics and increase in revenue from international markets. The healthy profitability levels vis-à-vis reduction in the finance cost has led to improvement in the debt protection metrics. The interest coverage ratio (ICR) and debt service coverage ratio (DSCR) stood at 4.32 times and 2.39 times respectively in FY2021 (Prov) as against 2.73 and 1.26 times respectively in the previous year.

The net worth of the company stood at Rs.23.79 Cr as on 31 March, 2021 (Prov) as against Rs.19.59 Cr as on 31 March, 2020. The improvement is on account of accretion of net profit in the reserves during the period. The gearing level (debt-equity) stands deteriorated at 1.55 times as on 31 March, 2021 (Prov) as against 1.33 times as on 31 March, 2020, the deterioration is on the significant increase in long term debt due to the company availing term loans during the same period of amount Rs.4.20 Cr. and various covid loans. TOL/TNW (Total outside liabilities/Total net worth) has deteriorated and stands high at 2.09 times as on 31 March, 2021 (Prov) against 1.59 times in previous year. High TOL/TNW is on account of presence of high long term, short term debt and trade payables levels during the period against previous year.

The total debt of Rs.36.93 Cr as on 31 March, 2021 (Prov) consist of long-term debt of Rs.7.18 Cr, short term debt of Rs.26.60 Cr and maturing portion of long term borrowings of Rs.3.15 Cr. NCA/TD (Net cash accruals to total debt) stands low and stable at 0.17 times in FY2021 (Prov) as against 0.17 times in FY2020. Acuite expects the financial risk profile to remain moderate over the medium to long term period on account of improvement in scale of operations and moderately leveraged capital structure.

- **Capex underway for upgradation of existing machinery and installation of solar panels; resilient amidst covid-19 pandemic**

SCPL is incurring a capex of Rs.17.60 Cr for upgradation of existing machinery and will be funded by term loan of Rs.14.08 Cr and remaining through internal accruals, equity and unsecured loans. The capex is expected to not affect the production activities as it is for the replacement of certain parts and machinery which will improve the efficiency and quality of the yarn produced. The implementation of capex will begin in the month of August, 2021 and is expected to be completed in short time frame. The demand risk stands low as SCPL has been witnessing high demand from the international markets and to cater to the need of good quality yarn, the capex is being incurred. The company currently has an unexecuted order book of around Rs.57-58 Cr for export markets to be executed in the year 2022. Besides, the company has availed a term loan of Rs.4.20 Cr for installation of roof-top solar panel plant with 1.35 MW capacity and is expected to

generate around 21 Lakhs unit output per year. As of August, 2021 nearly Rs.3.10 Cr has been disbursed and the installation is around 80 percent completed. The installation of solar panel will cater to nearly 20-22 percent of total power consumption requirements of the company. SCPL currently has a windmill plant with 1.4 MW capacity and generates around 20 Lakh units output per year. The windmill caters to around 21-22% of total power consumption.

SCPL has stayed resilient during the covid-19 pandemic and recorded improved revenue in FY2021. The operating income increased to Rs.104.68 Cr in FY2021 (Prov) from Rs.83.88 Cr in FY2020. In FY2021, on account of pandemic, less than 10 percent of total sales was realized in Q1 of FY2021. However, the company aims for sustainable growth with improved realizations and volumes in FY2022 and has recorded operating income of Rs.61.68 Cr in Q1 of FY2022 compared to Rs.8.00 Cr in Q1 of FY2021. Acuite believes that with an ongoing growth in demand in the industry backed by repeated orders from the customers, capex underway and the improvement demonstrated in Q1 of FY2022, the business risk profile of the company is expected to improve over the medium term.

Weaknesses

- **Working capital operations marked by moderate GCA days**

SCPL's working capital cycle is marked by moderate gross current assets (GCA) days in the range of 159-192 days over the last 3 years ending March 31, 2021 (Prov). The GCA days are majorly marked by moderate inventory and debtor days. The elevated GCA days of 192 days as on March 31, 2021 (Provisional) is on account of presence of high debtors amounting to nearly Rs.26.46 Cr on account of 2nd wave of covid-19 pandemic leading to delays in receivables collections. These are partially offset by low creditor days at 38 days as on March 31, 2021 (provisional). The moderate GCA cycle has led to moderate utilization of around 60-70 per cent of working capital requirement bank lines of Rs.54.00 Cr over the past 12 months ending June, 2021. Acuite believes that the operations of the company will remain moderately working capital intensive on account of presence of low level of credit period from suppliers due to the company's nature of business line.

- **Moderate customer and supplier concentration risk in revenue profile**

SCPL has been successfully able to diversify its geographical coverage by catering to the needs of domestic as well international customers across various countries. None of the single customer out of has contributed more than 20 percent to the total sales of the company in FY2021 (Prov). However, the top 10 customers of the company have been contributing nearly 70 percent of the total sales in a given financial year. The current suppliers are associated with the operations of the company for nearly 5-10 years now. Notably, none of the single supplier of SCPL has contributed more than 20 percent to the total purchases of the company. However, the top 10 suppliers of the company have been contributing nearly 45-60 percent of the total purchases in a given financial year. Acuite believes that SCPL has moderate risk towards its revenue profile in terms of customer and supplier concentration and will be monitorable over the medium term.

- **Susceptibility to fluctuation in raw material prices**

SCPL profitable margins are susceptible to fluctuations in the prices of major raw material i.e. Raw cotton. Cotton being a seasonal crop, the production of the same is highly dependent upon the monsoon. Thus, inadequate rainfall affects the availability of cotton in adverse weather conditions. Furthermore, any abrupt change in cotton prices due to supply-demand scenario and government regulations of changes in Minimum Support Price (MSP) can lead to distortion of prices and affect the profitability of players across the cotton value chain. Acuite believes that the company's business profile and financial profile can be adversely impacted on account of presence of inherent risk of susceptibility of volatility in raw cotton prices, since the industry is highly commoditized.

- **Increasing exports and trading activity**

SCPL's proportion of revenue generated through international market (exports) increased to Rs.45.94 Cr in FY2021 (Prov) against Rs.15.66 Cr in FY2020 on account of high exports demand due to increasing order to Indian manufactures on account of ban imposed by few countries on the imports from the Chinese manufacturers. Besides, SCPL's revenue from trading activity has increased to Rs.26.33 Cr in FY2021 (Prov) against Rs.4.86 Cr in FY2020. Whereas, the revenue from manufacturing activity marginally deteriorated to Rs.77.17 Cr in FY2021 (Prov) against Rs.78.58 Cr in FY2020. The increase in trading activity was on account of high demand from international markets resulting in SCPL to purchase the products from domestic open market to fulfill the demand. Acuite believes that the company's business profile and financial profile can be adversely impacted on account of presence of inherent risk of susceptibility of volatility in foreign exchange and also improvement in revenue from manufacturing activity remains key monitorable for sustainability in the operating margins for medium term.

Liquidity Position: Adequate

SCPL's liquidity is adequate marked by modest generation of net cash accruals in FY2021 (Prov) to its maturing debt obligations, low level of unencumbered cash and bank balance and moderate bank limit utilization. The company has generated cash accruals in the range of Rs.4.42-6.42 Cr during last three years ending FY2021 (Prov) as against its long term debt obligations of Rs.1.42-4.15 Cr for the same period. The company's working capital is moderately managed as evident from Gross Current Asset (GCA) of 192 days as on March, 2021 (Prov) as compared to 159 days as on March, 2020. The elevated GCA days as on March 31, 2021 (Provisional) is on account of presence of debtors amounting to nearly Rs.26.46 Cr. The current ratio stood at 1.34 times as on 31 March 31 2021 (Prov) against 1.38 in previous year and the fund based limit remains utilized at around 60-70 percent over the 12 months ended June, 2021. The company maintained unencumbered cash and bank balances of Rs.0.19 Cr as on 31 March 31 2021 (Prov) against Rs.1.65 Cr in previous year. SCPL in FY2021 has to avail covid loans in the form of working capital term loan amounting to Rs.4.50 Cr to meet its working capital requirement during the pandemic period. Acuite believes that the liquidity of the company is likely to improve over the medium term on account of increasing scale of operations and expected improvement in demand in the industry. However, the debtors level, sales volume, realization per unit and dependence on working capital bank lines will be key monitorables over the medium term for the assessment of liquidity position of the company. The company is expected to generate NCA in range of Rs.11.03-16.70 Cr against maturing debt obligations in range of Rs.3.15-4.49 Cr over the medium term.

Rating Sensitivities

Positive

- Significant and sustainable improvement in the scale of operations
- Sustainable improvement in Profitability, Leverage and Solvency position of the company.
- Sustainable improvement in realization per unit of the products offered by the company.

Negative

- Any deterioration in working capital cycle and liquidity profile of the company.
- Any deterioration in Revenue profile and leverage position of the company.
- Any deterioration in volume and realization per unit of the products offered by the company.
- Any weakening of financial risk profile of the company.

Outlook: Stable

Acuite believes that SCPL will continue to benefit over the medium to long term on account of long track record of operations, experienced management in the industry, decent unexecuted order book and capex underway for upgradation of machinery. The outlook may be revised to 'Positive', in case of sustainable improvement in scale of operations and improvement in volumes and per unit realizations of the products offered by the company leading to higher-than-expected revenues and profitability with improvement in financial risk profile. Conversely, the outlook may be revised to 'Negative' in case SCPL registers lower-than-expected revenues and profitability or any significant stretch in its working capital management or larger-than-expected debt- funded capital expenditure leading to deterioration of its financial risk profile and liquidity.

About the Rated Entity - Key Financials (Standalone)

	Unit	FY21 (Provisional)	FY20 (Actual)
Operating Income	Rs. Cr.	104.68	83.88
PAT	Rs. Cr.	4.06	1.49
PAT Margin	(%)	3.87	1.78
Total Debt/Tangible Net Worth	Times	1.55	1.33
PBDIT/Interest	Times	4.32	2.73

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

Not Applicable

Any other information

None

Material Covenants

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-59.htm>
- Trading Entities - <https://www.acuite.in/view-rating-criteria-61.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
15 May, 2020	Cash Credit	Long Term	4.00*	ACUITE BB/Stable (Reaffirmed)
	Term Loan	Long Term	4.35**	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	0.61	ACUITE BB/Stable (Reaffirmed)
	Cash Credit	Long Term	7.00#	ACUITE BB/Stable (Reaffirmed)
	Term Loan	Long Term	0.44	ACUITE BB (Withdrawn)
	Bank Guarantee	Short Term	0.30	ACUITE A4+ (Reaffirmed)
	Bank Guarantee	Short Term	0.10	ACUITE A4+ (Reaffirmed)
	FDBP/FUDBP	Short Term	2.30	ACUITE A4+ (Assigned)
11 April, 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

Lender's Name	Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Union Bank of India	FDBP/FUDBP/ FDBD/FUDBD/ IDBP/IUDBP	Not Applicable	Not Applicable	Not Applicable	9.00*	ACUITE A4+ (Reaffirmed)
Union Bank of India	Term Loan	03-07-2017	10.30%	30-09-2023	2.73	ACUITE BB+/Stable (Upgraded)
Union Bank of India	FDBP/FUDBP FDBD/FUDBD IDBP/IUDBP	Not Applicable	Not Applicable	Not Applicable	4.93	ACUITE A4+ (Reaffirmed)

Catholic Syrian Bank	PSCFC	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE A4+ (Reaffirmed)
Catholic Syrian Bank	ODH/ODBD/PCFC/FDBP/FUBP	Not Applicable	Not Applicable	Not Applicable	6.00**	ACUITE BB+/Stable (Upgraded)
Catholic Syrian Bank	Term Loan	Not Available	Not Available	Not Available	0.61	ACUITE BB+ (Upgraded; Withdrawn)
Punjab National Bank (e- Oriental Bank of Commerce)	PC/PCFC#	Not Applicable	Not Applicable	Not Applicable	2.00***	ACUITE A4+ (Reaffirmed)
Catholic Syrian Bank	Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	0.30	ACUITE A4+ (Withdrawn)
Punjab National Bank (e- Oriental Bank of Commerce)	Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	0.10	ACUITE A4+ (Withdrawn)

*Includes interchangeable sub limits of CC (H) to the extent of Rs.9.00 crore, PC/PCFC to the extent of Rs.9.00 crore, FDBP/FUDBP/FDBD/FUDBD/IDBP/IUDBP to the extent of Rs.3.00 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.

***Includes sub limits of CC(H) to the extent Rs.7.00 crore and Foreign Documentary Bill Purchased to the extent of Rs.7.00 crore. The amount of Rs.5.00 Cr has been taken over by Union Bank of India. Current rated amount is Rs.2.00 Cr

@The facility earlier was rated as Cash credit and has been modified by the banking institution to FDBP/FUDBP/FDBD/FUDBD/IDBP/IUDBP during the rating exercise.

#The facility earlier was rated as Cash credit and has been modified by the banking institution to PC/PCFC during the rating exercise.

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About Acuité Ratings & Research:

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