

Press Release

T C SPINNERS PRIVATE LIMITED (TCSPL)

15 February, 2018



Rating Reaffirmed and Assigned

Total Bank Facilities Rated*	Rs. 115.00 Cr. (Enhanced from Rs.25.00 crore)
Long Term Rating	SMERA BBB/Stable (Assigned and Reaffirmed)
Short Term Rating	SMERA A3+ (Assigned)

*Refer annexure for details

SMERA has reaffirmed the long term rating of '**SMERA BBB**' (read as SMERA triple B) on Rs.43.00 crore. Further SMERA has assigned the long term rating of '**SMERA BBB**' (read as SMERA triple B) and short term rating of '**SMERA A3+**' (read as SMERA A three plus) on the Rs. 72.00 crore on the above bank facilities of T C Spinners Private Limited (TCSPL). The outlook is '**Stable**'.

TCSPL is engaged in the manufacturing of cotton, polyester yarn and spun sewing thread of counts ranging from 10's to 40's at Lalru, Punjab. In 2006, Mr Satia and family, promoter of Satia Industries Limited (SIL), a listed company acquired the cotton spinning facility of Euro Cotspin Limited (Division of M/s A.V. Cottex Ltd) from Punjab National Bank under the SARFAESI Act and changed the name to T C Spinners Private Limited (TCSPL). The company is currently being managed by, Mr Ajay Satia, Mr Chirag Satia, Mr R.K. Bhandari, Mr Narinder Kumar Chugh and Mr Avinash Jain.

Key rating drivers

Strengths

Established position in yarn manufacturing, long standing relations with customers: TCSPL has been in the aforementioned business for more than a decade. The company is closely held by the promoters of Satia Industries viz. Mr. Chirag Satia, Mr. Ajay Satia, Mr. Dhruv Satia and Mr. Narinder Kumar Chugh who possess over two decades of experience in various industries including paper, cotton ginning and spinning.

TCSPL has an established customer base in India as well as abroad. It has been supplying to reputed clients such as Welspun Global, Platinum Yarns, Mittal Enterprises and others. TCSPL caters to PAN India.

Healthy financial risk profile marked by financial support from its promoters: The financial risk profile of TCSPL is healthy marked by networth of Rs.81.45 crore as on 31 March, 2017 as against Rs74.24 crore as on 31 March, 2016 (The networth comprises interest free unsecured loan to the tune of Rs.53.30 crore subordinated to bank debt as on March 31, 2017). The gearing improved to 0.99 times (Adjusted Debt-equity at 0.90 times) as on 31 March, 2017 as against 1.18 times in the previous year on account of additional infusion of unsecured loans

by directors. The total debt of Rs. 80.99 crore comprises working capital funding of Rs.37.55 crore, term loan of Rs. 28.04, Current portion of long term debt (CPLTD) of Rs.7.84 and unsecured loan of Rs.7.56 crore as on March 31, 2017. The ICR remained moderate at 2.43 times in FY2017 and 1.93 times in FY2016. The net cash accruals stood at 11.34 crore for FY2017.

SMERA believes that TCSPL will benefit from SIL's power generation capacity plant post-merger. At present SIL are having 28 mw power plants which are underutilised. Moreover SIL has set up another solar power plant of 2MW in FY17-18. The additional capex will increase SIL's power generation capacity and is likely to reduce external power procurement in the combined entity, thereby resulting in power cost saving

Moderate profitability: The operating margins improved from FY2015 to FY2017. The operating margin increased to 11.25 percent in FY2017 from 11.06 percent in FY2016 and 7.36 percent in FY2015 mainly on account of low cost of raw material.

SMERA believes that the merger will enable TCSPL to use the surplus power generated by SIL reducing its power cost leading to improvement in the EBITDA margins.

On-going support from promoters: The promoters of SIL have infused Rs.60.86 crore as unsecured loans in TCSPL as on 31 March, 2017 as against Rs.47.25 crore in the previous year for providing financial aid.

Weaknesses

Working capital intensive operations: The operations are working capital intensive marked by high Gross Current Asset days (GCA) of 194 days for FY2017 and 225 days in the previous year. The Inventory days stood high at 164 days in FY2017 and 165 days in FY2016. Moreover, the average utilisation of working capital facility stood at 95 percent for the last six months ended November 2017.

Susceptible to changes in raw material prices: The margins are susceptible to changes in cotton prices. The price of cotton is fixed by the government through Minimum Support Price (MSP). However, the purchase price depends on the prevailing demand-supply situation which restricts bargaining power with suppliers. Adverse movements in cotton prices further impacts profitability.

Highly fragmented industry: The company faces stiff competition from other players in the industry.

Analytical approach:

SMERA has considered the standalone business and financial risk profiles of TCSPL to arrive at the rating. SMERA has also considered the support of the group company Satia Industries Limited (SIL) since the promoters have informed the exchange vide letter dated August 04, 2017 about a proposal to merge both the companies.

Outlook: Stable

SMERA believes that TCSPL will maintain a Stable outlook owing to the management's extensive experience in the textile industry and established relations with customers. The outlook may be revised to 'Positive' in case of sustained growth in revenue and profitability while maintaining the working capital cycle. Conversely, the outlook may be revised to 'Negative' in case of significantly lower than expected net cash accruals, elongation of working capital cycle or occurrence of any event that could result in delay in merger with SIL.

About the group company

Satia Industries Limited (SIL) was incorporated in 1980. The company manufactures writing and printing paper. SIL has a manufacturing facility with capacity of 1,00,000 MTPA at Malout, Muktsar. The company manufactures a range of products including colored paper, ledger paper, cartridge paper among others.

About the Rated Entity - Key Financials

	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	171.12	157.59	179.65
EBITDA	Rs. Cr.	19.24	17.42	13.21
PAT	Rs. Cr.	0.15	1.24	0.21
EBITDA Margin	(%)	11.25	11.06	7.36
PAT Margin	(%)	0.09	0.79	0.12
ROCE	(%)	4.95	6.81	11.31
Total Debt/Tangible Net Worth	Times	0.99	1.18	1.26
PBDIT/Interest	Times	2.43	1.93	1.73
Total Debt/PBDIT	Times	4.21	5.02	5.81
Gross Current Assets (Days)	Days	194	225	194

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.smera.in/criteria-default.htm>
- Manufacturing entities- <https://www.smera.in/criteria-manufacturing.htm>
- 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): CARE has classified T C Spinners Private Limited in the 'ISSUER NOT COOPERATING' category due to non-submission of monthly 'No Default Statement' ("NDS") by the entity vide their press release dated April 17, 2017.

Rating History for the last three years:

Date	Name of Instrument / Facilities	Term	Amount (Rs .Cr.)	Ratings/Outlook
05 -Feb - 2018	Cash Credit	Long Term	25.00	SMERA BBB/ Stable (Assigned)

***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	NA	NA	NA	43.00	SMERA BBB/ Stable (Reaffirmed)
Warehouse Limit	NA	NA	NA	20.00	SMERA BBB/ Stable (Assigned)
Term Loan I	NA	NA	NA	9.46	SMERA BBB/ Stable (Assigned)
Term Loan II**	NA	NA	NA	6.66	SMERA BBB/ Stable (Assigned)
Term Loan III	NA	NA	NA	2.90	SMERA BBB/ Stable (Assigned)
Term Loan V***	NA	NA	NA	6.42	SMERA BBB/ Stable (Assigned)
Term Loan VI****	NA	NA	NA	4.36	SMERA BBB/ Stable (Assigned)
Bill Discounting	NA	NA	NA	4.00	SMERA A3+ (Assigned)
Letter of Credit/Bank Guarantee	NA	NA	NA	10.00	SMERA A3+ (Assigned)
Proposed	NA	NA	NA	8.20	SMERA BBB/Stable (Assigned)

*Interchangeability with PC/PCFC/EBP/EBN/EBD to the limit of Rs.5.00 crore.

**Includes one FLC of EURO 148800, issued and due in June 2019.

*** Includes one FLC of EURO 1076400, issued and due in December 2018 and FLC for EURO 272700 issued and due in March 2020.

**** Includes one FLC of EURO 284400.00, issued and due in Feb 2020

Contacts:

Analytical	Rating Desk
Vinayak Nayak, Head – Ratings Operations Tel: +91-22-6714 1190 Email: vinayak.nayak@smera.in	Varsha Bist Sr. Executive Tel: 022-67141160 Email: varsha.bist@smera.in
Pawan Punmaji, Rating Analyst, Tel: +91-22-6714 1352 Email: pawan.punmaji@smera.in	

ABOUT SMERA

SMERA Ratings Limited is a joint initiative of SIDBI, Dun & Bradstreet Information Services India Private Limited (D&B) and leading public and private sector banks in India. SMERA is registered with SEBI as a Credit Rating Agency and accredited by Reserve Bank of India. For more details, please visit www.smera.in.

Disclaimer: A SMERA rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. SMERA ratings are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, SMERA, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. SMERA is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind arising from the use of its ratings. SMERA ratings are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website (www.smera.in) for the latest information on any instrument rated by SMERA.