

## Press Release

**Sustainable Spinning and Commodities Private Limited**

**February 15, 2022**



### Rating Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
<b>Bank Loan Ratings</b>	99.50	ACUITE BBB-   Stable   Reaffirmed	-
<b>Bank Loan Ratings</b>	4.50	-	ACUITE A3   Reaffirmed
<b>Total Outstanding Quantum (Rs. Cr)</b>	104.00	-	-
<b>Total Withdrawn Quantum (Rs. Cr)</b>	0.00	-	-

\* Refer Annexure for details

### Rating Rationale

Acuité has reaffirmed the long-term rating of '**ACUITE BBB-**' (read as **ACUITE triple B minus**) and the short-term rating of '**ACUITE A3**' (read as **ACUITE A three**) on the Rs.104.00 Cr bank facilities of Sustainable Spinning and Commodities Private Limited (SSPL). The outlook is 'Stable'.

### Rationale for rating reaffirmation:

The reaffirmation in the rating reflects the long track record of operations of the company and experienced management, moderate financial risk profile, adequate liquidity position and reputed clientele. The rating, however, continues to remain constrained on account of fluctuating margins and working capital-intensive operations leading to high utilization of the working capital facilities.

### About Company

Gujarat-based, SSPL was incorporated in 2012. At present, the directors are Mr. Mohamedhasanain Husenali Narsinh, Mrs. Minajbanu Husenali Narsinh, Mr. Husenali Yusufali Narsinh and Mrs. Fatema Mohmadhasnein Narsinh. The company is engaged in the manufacturing of cotton yarns with an installed capacity of 40,000 spindles per annum (PA). The utilized capacity varies between 22-25 MT per day due to the production of various counts of yarns, i.e., 30, 34, 36, and 40. It procures 50 percent of cotton bales from its group company Milan Ginning Pressing Private Limited (MGPL) and the rest is procured from other local ginning players in Gujarat. The company exports ~90 percent of its production to countries including Europe, Bangladesh, to name a few. Major exports are done from their sister concern- Milan Ginning Pressing Private Limited (MGPL). The manufacturing facility is located in Gujarat.

### About the Group

Milan group was established in 1995 by Mr. Husenali Yusufali Narsinh. The group consists of 3 companies, namely SSPL, Milan Ginning Pressing Private Limited (MGPL) and K R Solvent (KRS). The group is engaged in manufacturing and trading of cotton yarn, cotton bales, cotton linter, cottonseed meal, cottonseed hull and cotton seed oil.

## **Analytical Approach**

### **Extent of Consolidation**

- Full Consolidation

### **Rationale for Consolidation or Parent / Group / Govt. Support**

Acuité has consolidated the business and financial risk profiles of SSPL, MGPL and KRS together known as the 'Milan Group' (MG), to arrive at this rating. The consolidation is on account of common management, similar line of business, high level of integration and strong operational linkages.

## **Key Rating Drivers**

### **Strengths**

#### **>Experienced management and established track record of operations**

The promoters, Mr. Husenali Narsinh, Mr. Mohamedhasanain Narsinh, Mrs. Minajbanu Narshinh, Mrs. Fatema Narsinh and Mr. Nehvish Narsinh have over three decades of experience in the textile industry. The extensive experience, coupled with a long track record of operations, has enabled the company to forge healthy relationships with customers and suppliers. Over the years, the management has been able to establish long term relations with reputed players in the textile industry. The group exports to various countries and is one of the leading ginning and pressing companies of India. Moreover, SSPL caters to international clients such as H&M, Marks & Spencer and Nike. The group enjoys a long standing relationship with them due to their focus on quality. The group is involved in export business in countries including Bangladesh, China, Europe, Egypt and other countries.

Acuité believes that the experience of the management in the industry is likely to favorably impact the business risk profile of the company over the near to medium term.

#### **>Moderate financial risk profile**

Financial risk profile of the group is moderate marked by moderate gearing (debt to equity ratio) & moderate total outside liabilities to total net worth (TOL/TNW), and moderate debt protection metrics. The gearing stood at 1.27 times as on March 31, 2021 against 1.19 times as on March 31, 2020. TOL/TNW stood at 2.03 times as on March 31, 2021 against 1.75 times as on March 31, 2020. Tangible net worth of the group stood modest at Rs. 98.03 crore as on March 31, 2021 against Rs. 102.30 crore as on March 31, 2020. The net worth reduced in FY2021, since there has been withdrawal of capital from K R Solvent. The promoters withdrew the capital since they felt that there is excess capital in KRS & secondly another trading unit- Mah Textiles LLP was established last year. So, the capital was withdrawn & invested in that firm. Of the total debt of Rs. 124.12 crore as on March 31, 2021, long-term debt stood at Rs. 46.01 crore, short-term debt stood at Rs. 59.82 crore, unsecured loans stood at Rs. 5.05 crore and CPLTD stood at Rs. 13.23 crore. Debt protection metrics of interest coverage ratio and net cash accruals to total debt stood moderate at 2.58 times and 0.12 times respectively in FY2021; while DSCR stood at 2.16 times in FY2021.

Acuité believes that the financial risk profile of the group is expected to remain at a similar level on account of modest net worth and moderate cash accruals vis- à-vis moderate repayment obligations and moderate debt protection metrics.

### **Weaknesses**

#### **>Working capital intensive operations**

The group's working capital operations have improved but are still intensive marked by Gross Current Asset days (GCA) of 164 days in FY2021 against 197 days in FY2020. The inventory days stood at 51 days in FY2021 against 70 days in FY2020. The group maintains an inventory holding policy of 2 months based on the orders. The debtors' days stood at 73 days in FY2021 against 75 days in FY2020. The credit period given to customers is around 60-90 days. The creditors' days stood at 50 days in FY2021 against 59 days in FY2020. The group enjoys a credit period of 60-90 days from their suppliers. However, working capital limits remains utilized at 90-100 percent for last 6 months ended January, 2022.

Acuité believes that the group's ability to maintain its working capital efficiently will remain

critical to maintain a stable credit profile.

#### **>Highly competitive industry with Susceptibility of profitability to fluctuations in raw material prices**

The group operates in highly competitive textile industry with several organized and unorganized players which limit the bargaining power. The group is also exposed to risks emanating from adverse movements in cotton prices in the domestic and international markets. The operating margins stood at 3.94 percent in FY2021 against 5.02 percent in FY2020. The fluctuations in margin is mainly due to fluctuations in raw material prices.

Acuité believes that the group's ability to pass on the increase in cotton prices to the end customers shall be critical towards maintaining its credit risk profile. Adverse movements in prices on account of global demand - supply mismatches may result in downward pressure on the group's margins over the near to medium term.

#### **Rating Sensitivities**

- Growth in revenue with sustainability of the profitability margins.
- Any deterioration of its financial risk profile and liquidity position.
- Any elongation of the working capital cycle leading to deterioration in debt protection metrics.

#### **Material Covenants**

None

#### **Liquidity Position: Adequate**

The group has an adequate liquidity position as reflected by adequate net cash accruals against moderate repayment obligations. The group generated cash accruals in the range of Rs.14.45 crore – Rs.20.32 crore during the last three years through FY2019-21 against moderate repayment obligations in the range of Rs.1.18 crore – Rs.13.23 crore during the same period. It is expected to generate cash accruals in the range of Rs.30.30 crore – Rs.63.69 crore over the medium term, against moderate repayment obligations in the range of Rs.10.60 crore – Rs.13.89 crore. Unencumbered cash and bank balances stood at Rs.5.00 crore as on March 31, 2021 with a current ratio of 1.52 times in the same period. Liquid investments stood at Rs.3.11 crore as on March 31, 2021. The working capital limits remained utilized at 90-100 percent for last trailing 6 months ended January, 2022.

Acuité believes that liquidity profile is expected to remain adequate on account of adequate cash accruals against moderate repayment obligations.

#### **Outlook: Stable**

Acuité believes that Milan Group (MG) will maintain a 'Stable' outlook over the medium term owing to its experienced management and long standing presence in the industry. The outlook may be revised to 'Positive' if the group demonstrates substantial and sustained growth in its revenues from the current levels while maintaining its operating margins. Conversely, the outlook may be revised to 'Negative' in case the group registers lower than expected growth in revenues and profitability or deterioration in the financial risk profile, working capital cycle and liquidity.

#### **Key Financials**

Particulars	Unit	FY 21 (Actual)	FY 20 (Actual)
Operating Income	Rs. Cr.	485.86	369.49
PAT	Rs. Cr.	2.89	3.81
PAT Margin	(%)	0.59	1.03
Total Debt/Tangible Net Worth	Times	1.27	1.19
PBDIT/Interest	Times	2.58	2.69

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

Not Applicable

**Any Other Information**

None

**Applicable Criteria**

- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>
- Consolidation Of Companies: <https://www.acuite.in/view-rating-criteria-60.htm>
- Default Recognition: <https://www.acuite.in/view-rating-criteria-52.htm>
- Manufacturing Entities: <https://www.acuite.in/view-rating-criteria-59.htm>
- Trading Entity: <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

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
25 Nov 2020	Term Loan	Long Term	31.58	ACUITE BBB-   Stable (Reaffirmed)
	Term Loan	Long Term	15.01	ACUITE BBB-   Stable (Reaffirmed)
	Term Loan	Long Term	15.60	ACUITE BBB-   Stable (Reaffirmed)
	Bank Guarantee	Short Term	3.00	ACUITE A3 (Reaffirmed)
	Cash Credit	Long Term	4.00	ACUITE BBB-   Stable (Reaffirmed)
	Cash Credit	Long Term	8.00	ACUITE BBB-   Stable (Reaffirmed)
	Proposed Bank Facility	Long Term	21.31	ACUITE BBB-   Stable (Reaffirmed)
	Bank Guarantee	Short Term	1.50	ACUITE A3 (Reaffirmed)
	Cash Credit	Long Term	4.00	ACUITE BBB-   Stable (Reaffirmed)
02 May 2019	Cash Credit	Long Term	4.00	ACUITE BBB-   Stable (Reaffirmed)
	Proposed Bank Facility	Long Term	15.94	ACUITE BBB-   Stable (Reaffirmed)
	Bank Guarantee	Short Term	3.00	ACUITE A3 (Reaffirmed)
	Bank Guarantee	Short Term	1.50	ACUITE A3 (Reaffirmed)
	Term Loan	Long Term	34.00	ACUITE BBB-   Stable (Reaffirmed)
	Cash Credit	Long Term	4.00	ACUITE BBB-   Stable (Reaffirmed)
	Term Loan	Long Term	16.79	ACUITE BBB-   Stable (Reaffirmed)
	Cash Credit	Long Term	88.00	ACUITE BBB-   Stable (Reaffirmed)
	Term Loan	Long Term	16.77	ACUITE BBB-   Stable (Reaffirmed)
14 Feb 2018	Term Loan	Long Term	3.94	ACUITE BBB-   Stable (Assigned)
	Term Loan	Long Term	8.00	ACUITE BBB-   Stable (Assigned)
	Term Loan	Long Term	29.93	ACUITE BBB-   Stable (Assigned)
	Cash Credit	Long Term	8.00	ACUITE BBB-   Stable (Assigned)
	Term Loan	Long Term	18.00	ACUITE BBB-   Stable (Assigned)
	Cash Credit	Long Term	4.00	ACUITE BBB-   Stable (Assigned)
	Term Loan	Long Term	18.00	ACUITE BBB-   Stable (Assigned)
	Bank Guarantee	Short Term	3.00	ACUITE A3 (Assigned)
		Short		

Bank Guarantee	Term	1.50	ACUITE A3 (Assigned)
Proposed Long Term Loan	Long Term	5.63	ACUITE BBB-   Stable (Assigned)
Cash Credit	Long Term	4.00	ACUITE BBB-   Stable (Assigned)

## Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
State Bank of India	Not Applicable	Bank Guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	3.00	ACUITE A3   Reaffirmed
Bank of Baroda	Not Applicable	Bank Guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	1.50	ACUITE A3   Reaffirmed
State Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	8.00	ACUITE BBB-   Stable   Reaffirmed
Bank of Baroda	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	4.00	ACUITE BBB-   Stable   Reaffirmed
Indian Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	4.00	ACUITE BBB-   Stable   Reaffirmed
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	10.87	ACUITE BBB-   Stable   Reaffirmed
State Bank of India	Not Applicable	Term Loan	31-01-2014	11.40	30-06-2022	0.44	ACUITE BBB-   Stable   Reaffirmed
State Bank of India	Not Applicable	Term Loan	31-01-2014	11.40	30-09-2024	12.83	ACUITE BBB-   Stable   Reaffirmed
State Bank of India	Not Applicable	Term Loan	31-05-2020	11.40	30-06-2030	2.28	ACUITE BBB-   Stable   Reaffirmed
State Bank of India	Not Applicable	Term Loan	31-08-2021	11.40	31-03-2032	4.73	ACUITE BBB-   Stable   Reaffirmed
Indian Bank	Not Applicable	Term Loan	28-02-2017	10.05	31-03-2027	13.51	ACUITE BBB-   Stable   Reaffirmed
Bank of Baroda	Not Applicable	Term Loan	28-02-2017	11.40	31-03-2027	12.65	ACUITE BBB-   Stable   Reaffirmed
Bank of Baroda	Not Applicable	Term Loan	31-03-2032	11.40	30-09-2021	2.36	ACUITE BBB-   Stable   Reaffirmed
Bank of	Not	Term Loan	31-05-2020	8.00	30-09-2023	0.13	ACUITE BBB-

Baroda	Applicable						Stable   Reaffirmed
Indian Bank	Not Applicable	Term Loan	30-09-2021	10.55	31-03-2032	2.36	ACUITE BBB-   Stable   Reaffirmed
State Bank of India	Not Applicable	Term Loan	31-10-2016	11.40	31-03-2027	5.91	ACUITE BBB-   Stable   Reaffirmed
Indian Bank	Not Applicable	Working Capital Term Loan	31-05-2020	7.30	31-05-2023	0.25	ACUITE BBB-   Stable   Reaffirmed
Indian Bank	Not Applicable	Working Capital Term Loan	31-03-2021	9.25	30-04-2025	3.80	ACUITE BBB-   Stable   Reaffirmed
Bank of Baroda	Not Applicable	Working Capital Term Loan	31-03-2021	9.25	31-03-2025	3.79	ACUITE BBB-   Stable   Reaffirmed
State Bank of India	Not Applicable	Working Capital Term Loan	31-05-2022	7.40	31-05-2020	0.27	ACUITE BBB-   Stable   Reaffirmed
State Bank of India	Not Applicable	Working Capital Term Loan	31-03-2021	7.95	30-04-2026	7.32	ACUITE BBB-   Stable   Reaffirmed

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### About Acuité Ratings & Research

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