

Press Release

Sustainable Spinning and Commodities Private Limited

May 16, 2023



Rating Reaffirmed

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

Rating Rationale

Acuite 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 of the rating is driven by the improved operating performance of the group in FY2022 marked by the improvement in operating income, stable profitability, and moderate financial risk profile, and sustenance of the performance in FY2023. The revenue of the group improved to Rs.719.93 crore in FY2022 from Rs. 483.63 crore in FY2021 registering a growth of ~49.00%.

Further, the revenue of the group stood at Rs. ~858.22 crore for FY2023. The rating, is however constrained by the working capital-intensive operations leading to high utilization of the working capital facilities.

About the 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. During the year, the company also added 20s count of yarns. 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 Sustainable Spinning and Commodities Private Limited (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 hulk 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 have over three decades of experience in the textile industry, coupling with a long track record of operation has enabled the company to forge healthy relationships with the stakeholders. Over the years, the management has been able to establish long term relations with reputed players in the textile industry. The products are exported to various countries like Bangladesh, China, Europe, Egypt catering to international clients such as H&M, Marks & Spencer and Nike, and is one of the leading ginning and pressing companies of India.

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

Moderate financial risk profile

The group has moderate financial risk profile marked by tangible net worth of Rs.99.59 crore as on 31 March, 2022 as against Rs.98.03 crore as on 31 March, 2021. The group follows a moderate leverage policy reflected in its peak gearing level of 1.54 times as on 31 March, 2022 as against 1.27 times as on 31 March, 2021. The total debt outstanding of Rs.152.88 crore includes working capital borrowings of Rs.87.10 crore, unsecured loan from promoters of Rs.6.00 crore and term loan of Rs.59.78 crore as on 31 March, 2022.

The coverage ratios of the company are moderate with Interest Coverage Ratio (ICR) of 2.63 times for FY2022 against 2.55 times for FY2021. Also, the Debt Service Coverage Ratio (DSCR) stood at 1.02 times for FY2022 against 2.13 times for FY2021. The total outside liabilities to tangible net worth (TOL/TNW) of the company stood at 3.04 times as on March 31, 2022 against 2.03 times as on March 31, 2021. Further, Net Cash Accruals to Total Debt (NCA/TD) stood at 0.10 times for FY2022 as against 0.11 times for FY2021.

Weaknesses

Working Capital Intensive Nature of operations

The operations of the company are of working capital-intensive nature marked by moderate GCA days of 156 days for FY2022 as against 165 days for FY2021. The GCA days are marked by high debtor days of 105 days in FY2022 as against 73 days in FY2021. The inventory levels are low and stood at 30 days for FY2022 compared against 51 days for FY2021. The creditor days of the company stood at 77 days for FY2022 as against 50 days for FY2021. The average utilization of the working capital limits of the company remained on the higher side of ~90-95 percent.

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 a highly competitive textile industry with several organized and unorganized players which can limit the bargaining power. The group is subjected to the risk 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 the volatility 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. Fluctuating 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 adequate liquidity position marked by adequate net cash accruals against its maturing debt obligations. The company generated cash accruals of Rs.15.57 crore in FY2022 compared against maturing debt obligations of Rs.15.12 crore over the same period. The cash accruals of the company are estimated to remain around Rs.21.86 – 27.71 crore during 2023-24 period while its matured debt obligations is estimated to be in the range of 13.03-16.65 crore during the same period providing cushion to meet its obligations. Furthermore, the company maintains unencumbered cash and bank balances of Rs.2.67 crore as on March 31, 2022 and the current ratio also stood moderate at 1.26 times as on March 31, 2022.

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.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	719.93	483.63
PAT	Rs. Cr.	5.05	2.58
PAT Margin	(%)	0.70	0.53
Total Debt/Tangible Net Worth	Times	1.54	1.27
PBDIT/Interest	Times	2.63	2.55

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

Brickworks vide its press release dated 9.11.2022, had downgraded the company to BWR BB-/Stable/A4 ; Issuer Not Cooperating

Any other information

None

Applicable Criteria

- Default Recognition :- <https://www.acuite.in/view-rating-criteria-52.htm>
- Entities In Manufacturing Sector:- <https://www.acuite.in/view-rating-criteria-59.htm>
- 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>

Note on complexity levels of the rated instrument

In order to inform the investors about complexity of instruments, Acuite has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in.

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
	Term Loan	Long Term	12.65	ACUITE BBB- Stable (Reaffirmed)
	Working Capital Term Loan	Long Term	3.80	ACUITE BBB- Stable (Reaffirmed)
	Term Loan	Long Term	2.28	ACUITE BBB- Stable (Reaffirmed)
	Term Loan	Long Term	2.36	ACUITE BBB- Stable (Reaffirmed)
	Bank Guarantee	Short Term	1.50	ACUITE A3 (Reaffirmed)
	Term Loan	Long Term	12.83	ACUITE BBB- Stable (Reaffirmed)
	Working Capital Term Loan	Long Term	0.25	ACUITE BBB- Stable (Reaffirmed)
	Proposed Bank Facility	Long Term	10.87	ACUITE BBB- Stable (Reaffirmed)
	Term Loan	Long Term	4.73	ACUITE BBB- Stable (Reaffirmed)
	Working Capital Term Loan	Long Term	3.79	ACUITE BBB- Stable (Reaffirmed)

15 Feb 2022	Term Loan	Long Term	2.36	ACUITE BBB- Stable (Reaffirmed)
	Cash Credit	Long Term	4.00	ACUITE BBB- Stable (Reaffirmed)
	Term Loan	Long Term	13.51	ACUITE BBB- Stable (Reaffirmed)
	Term Loan	Long Term	0.13	ACUITE BBB- Stable (Reaffirmed)
	Working Capital Term Loan	Long Term	7.32	ACUITE BBB- Stable (Reaffirmed)
	Term Loan	Long Term	0.44	ACUITE BBB- Stable (Reaffirmed)
	Term Loan	Long Term	5.91	ACUITE BBB- Stable (Reaffirmed)
	Cash Credit	Long Term	4.00	ACUITE BBB- Stable (Reaffirmed)
	Bank Guarantee	Short Term	3.00	ACUITE A3 (Reaffirmed)
	Working Capital Term Loan	Long Term	0.27	ACUITE BBB- Stable (Reaffirmed)
	Cash Credit	Long Term	8.00	ACUITE BBB- Stable (Reaffirmed)
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)
		Long Term		ACUITE BBB- Stable (Reaffirmed)
	Cash Credit	Term	8.00	(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)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
State Bank of India	Not Applicable	Bank Guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	Simple	3.00	ACUITE A3 Reaffirmed
Bank of Baroda	Not Applicable	Bank Guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	Simple	1.50	ACUITE A3 Reaffirmed
State Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	8.00	ACUITE BBB- Stable Reaffirmed
Bank of Baroda	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	4.00	ACUITE BBB- Stable Reaffirmed
Indian Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	4.00	ACUITE BBB- Stable Reaffirmed
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Simple	10.87	ACUITE BBB- Stable Reaffirmed
State Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	0.44	ACUITE BBB- Stable Reaffirmed
State Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	12.83	ACUITE BBB- Stable Reaffirmed
State Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	2.28	ACUITE BBB- Stable Reaffirmed
State Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	4.73	ACUITE BBB- Stable Reaffirmed
Indian Bank	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	13.51	ACUITE BBB- Stable Reaffirmed
Bank of Baroda	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	12.65	ACUITE BBB- Stable Reaffirmed
Bank of Baroda	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	2.36	ACUITE BBB- Stable Reaffirmed
Bank of	Not	Term Loan	Not	Not	Not	Simple	0.13	ACUITE BBB-

Baroda	Applicable		available	available	available			Stable Reaffirmed
Indian Bank	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	2.36	ACUITE BBB- Stable Reaffirmed
State Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	5.91	ACUITE BBB- Stable Reaffirmed
Indian Bank	Not Applicable	Working Capital Term Loan	Not available	Not available	Not available	Simple	0.25	ACUITE BBB- Stable Reaffirmed
Indian Bank	Not Applicable	Working Capital Term Loan	Not available	Not available	Not available	Simple	3.80	ACUITE BBB- Stable Reaffirmed
Bank of Baroda	Not Applicable	Working Capital Term Loan	Not available	Not available	Not available	Simple	3.79	ACUITE BBB- Stable Reaffirmed
State Bank of India	Not Applicable	Working Capital Term Loan	Not available	Not available	Not available	Simple	0.27	ACUITE BBB- Stable Reaffirmed
State Bank of India	Not Applicable	Working Capital Term Loan	Not available	Not available	Not available	Simple	7.32	ACUITE BBB- Stable Reaffirmed

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