

## Press Release

### Shree Rayon Private Limited

December 01, 2020

#### Rating Reaffirmed



<b>Total Bank Facilities Rated*</b>	Rs.16.86 Cr.
<b>Long Term Rating</b>	ACUITE BBB- / Outlook: Stable (Reaffirmed)

\* Refer Annexure for details

#### Rating Rationale

Acuite has reaffirmed the long term rating of '**ACUITE BBB-**' (read as **ACUITE triple B minus**) on the Rs.16.86 crore bank facilities of Shree Rayon Private Limited (SRPL). The outlook is 'Stable'.

The rating reaffirmation draws comfort from the established track record of operations of SRPL's promoters in the textile industry, reputed clientele, healthy financial risk profile and comfortable working capital management. The ratings, however, remain constrained by the intense competition, impact of Covid-19 on the company and significant concentration risk in its customer profile.

#### About the Company

SRPL is a private limited company incorporated in 1999 by Mr. Bharat Mehta and Mr. Girish Mehta, which is engaged in manufacturing of finished fabric from raw yarn, i.e. Polyester Viscose and Poly Wool for suiting purpose. The company has a manufacturing capacity of ~29 LMPA (Lakh Meters Per Annum).

#### Analytical Approach

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

#### Key Rating Drivers

##### Strengths

##### • Experienced management, established track record of operations and reputed clientele

The promoters of the company, Mr. Bharat Mehta and Mr. Girish Mehta have been associated with the textile industry for the past 25-30 years and are highly experienced and well versed with the understanding of the industry. SRPL was incorporated in 1999 and is operating in the textile business for the past two decades, where it has been able to build a strong reputation and brand in the industry over the years.

SRPL deals with several reputed clients in the domestic market, such as Raymond and Arvind, to name a few. This partly leads to a reduced demand risk since it deals with the large players in the industry that has huge requirements for the grey cloth all-round the year. It also exports to the Europe and the Middle East region along with countries like Sri Lanka and Cambodia. The company sources its raw materials from local suppliers only and has established long term relationships of ~20 years with these suppliers.

Acuite believes that the company's established track record of operations, experienced management and the long-standing relations with its customer and supplier base will continue to support its business risk profile over near to medium term.

##### • Healthy financial risk profile

The company has a healthy financial risk profile marked by an increase in tangible net worth, improvement in gearing and debt protection metrics.

The net worth of the company stood at Rs.20.98 Cr. as on March 31, 2020 (Provisional) as against Rs.17.68 Cr. as on March 31, 2019. The company follows a moderate financial policy as reflected in its Gearing (Debt to Equity) of 1.12 times as on March 31, 2020 (Provisional) as against 1.46 times as on March 31, 2019. The debt profile majorly comprises of unsecured loans infused by the promoters, working capital facilities and a term loan. The TOL/TNW (Total Outside Liabilities to Total Net Worth) stood at 1.60 times as on March 31, 2020 (Provisional).

The debt protection metrics remain comfortable and have improved on YOY basis. The ICR (Interest

Coverage Ratio) stood at 3.38 times as on March 31, 2020 (Provisional) as against 2.14 times as on March 31 2019 and the DSCR (Debt Service Coverage Ratio) stood at 2.18 times as on March 31, 2020 (Provisional) as against 1.49 times as on March 31 2019. The NCA/TD (Net Cash Accrual to Total Debt) stood at 0.22 times as on March 31, 2020 (Provisional) as against 0.14 times as on March 31, 2019.

Acuite believes that the financial risk profile of the company is expected to remain healthy in the near to medium term on account of modest net worth, comfortable net cash accruals vis-à-vis minor repayment obligations and comfortable debt protection metrics.

- **Comfortable working capital management**

SRPL has comfortable working capital management marked by improvement GCA of 123 days as on March 31, 2020 (Provisional) as against 141 days as on March 31, 2019. The improvement in GCA is driven by improvement in the Inventory of 47 days as on March 31, 2020 (Provisional) as against 59 days as on March 31, 2019 and improvement in Debtors of 62 days as on March 31, 2020 (Provisional) as against 65 days as on March 31, 2019.

The Creditors too have improved to 42 days as on March 31, 2020 (Provisional) as against 60 days as on March 31, 2019. The current ratio stands moderate at 1.84 times as on March 31, 2020 (Provisional) while the working capital limits remain utilised at an average of ~66.39 percent for the 7 months period till October, 2020.

Acuite believes that the working capital management of SRPL is expected to remain at comfortable levels in the near to medium term and will remain key rating sensitivity factor.

## **Weaknesses**

- **Highly fragmented industry with intense competition**

SRPL has a presence in the highly fragmented and competitive textile industry, thus limiting its bargaining power in terms of pricing and credit terms with customers. Moreover, the textile industry is highly vulnerable to fluctuation in the global market and several other factors.

- **Deteriorating operating performance on account of Covid-19**

SRPL's operations have been significantly impacted by the Covid-19 pandemic, which has impacted the firm's ability to generate revenues at FY2020 (Provisional) levels in the current year. The revenues are expected to improve gradually on a month on month basis due to improving business conditions the total revenue for FY2021 is expected to deteriorate by around ~40 percent on account of reduced business activity during the lockdown period.

Acuite believes that while the revenues are expected to deteriorate in the near term due to the impact of COVID-19, the ability of the company to improve its scale of operations in FY2022 will be key monitorable.

- **Customer concentration risk**

While the company counts several reputed entities as its clients, it derives a significant percentage of its revenue from Raymond. This presents a concentration risk in its customer profile and makes it imperative that its association with Raymond continues to remain as is, until and unless the company diversifies its customer profile.

Acuite believes that the company's ability to diversify its customer base will remain a key rating sensitivity factor.

## **Liquidity position: Adequate**

SRPL has adequate position marked by comfortable net cash accruals vis-à-vis its maturing debt obligations and moderate utilisation of its working capital facilities. The company generated cash accruals of Rs.5.17 Cr. as on March 31, 2020 (Provisional) as against Rs.3.59 Cr. as on March 31, 2019 vis-à-vis its maturing debt obligations of Rs.0.37 Cr. in FY2020 (Provisional) and Rs.0.98 Cr. in FY2019. The working capital limits remain utilised at an average of ~66.39 percent for the 7 months period till October, 2020. While the cash accruals of the company are expected to decline in FY2021 due to the impact of Covid-19, the same are expected to be back to normal from FY2022. The NCA/TD stood at 0.22 times as on March 31, 2020 (Provisional) and the company maintained unencumbered cash and bank balances of Rs.0.13 Cr. as on March 31, 2020 (Provisional).

Acuite believes the liquidity is expected to remain adequate in the near to medium, Howbeit the working capital management in the near to medium term will remain a key rating sensitivity factor amidst the growing scale of operations and the impact of Covid-19.

### Rating Sensitivities

- Significant improvement in scale of operations while maintaining its profitability margins.
- Deterioration in the working capital cycle leading to stress on the debt protection metrics or the liquidity position of the company.

### Material Covenants

None

### Outlook: Stable

Acuite believes that SRPL will maintain a 'Stable' outlook in the near to medium term on account of its experienced management and established track record of operations. The outlook may be revised to 'Positive' if the company registers higher-than-expected growth in revenues, profitability margins and net cash accruals while maintaining/improving its debt protection metrics and financial risk profile. The outlook may be revised to 'Negative' in case the company registers substantial decline in revenues or profitability margins or if the financial risk profile deteriorates due to higher than expected working capital requirements resulting in deterioration of the capital structure.

### About the Rated Entity - Key Financials

	Unit	FY20 (Provisional)	FY19 (Actual)
Operating Income	Rs. Cr.	92.92	80.19
PAT	Rs. Cr.	3.30	2.11
PAT Margin	(%)	3.55	2.63
Total Debt/Tangible Net Worth	Times	1.12	1.46
PBDIT/Interest	Times	3.38	2.14

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

None

### Any other information

None

### Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-59.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
02-May-2019	Term Loan	Long Term	4.86	ACUITE BBB- / Stable (Reaffirmed)
	Cash Credit	Long Term	12.00	ACUITE BBB- / Stable (Reaffirmed)
28-Feb-2018	Term Loan	Long Term	4.86	ACUITE BBB- / Stable (Assigned)
	Cash Credit	Long Term	12.00	ACUITE BBB- / Stable (Assigned)

**\*Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Term Loan	August, 2016	10.10%	September, 2022	4.86	ACUITE BBB- / Stable (Reaffirmed)
Cash Credit	Not Applicable	9.65%	Not Applicable	12.00	ACUITE BBB- / Stable (Reaffirmed)

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