



Press Release
SHREE RAYON PRIVATE LIMITED
February 17, 2022
Rating Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	16.86	ACUITE BBB- Stable Reaffirmed	-
Total Outstanding Quantum (Rs. Cr)	16.86	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuité has reaffirmed a long term rating of 'ACUITE BBB-' (read as ACUITE triple B minus) to the above mentioned bank facilities of Shree Rayon Private Limited (SRPL). The outlook is 'Stable'.

Rationale for Rating Reaffirmation

The rating reaffirmation takes into account the experienced management, established track record of operations and relations with reputed clientele. It further takes comfort from SRPL's healthy financial profile despite significant decline in scale of operations. However the rating is restrained on account of elongation observed in working capital cycle and decline in scale of operations and operating profits. Going forward SRPL's ability to restrict further elongation in working capital cycle and improve its scale of operations will remain key rating sensitivity factor.

About the Company

Maharashtra based, SRPL was incorporated in 1999 by Mr. Bharat Mehta and Mr. Girish Mehta. The company is into manufacturing of finished cloth, which includes Polyester viscose and Poly wool used for Suiting purpose. SRPL has its manufacturing facilities at Boisar (Maharashtra) with capacities of 28.80 lakh meters per annum and is in the process of expanding its capacity to 36 lakh meters per annum.

Analytical Approach

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

Key Rating Drivers

Strengths

Extensive experience of management and established track record of operations

SRPL was incorporated in 1999 and is operating the textile business for the past two decades and has been able to build a strong reputation and brand in the industry over the years. The experience of the promoters has enabled the company to maintain long and healthy relationships with its customers and suppliers. The promoters of the company, Mr. Girish Mehta and Mr. Bharat Mehta have been working in the textile industry for over two decades and have experience in understanding the demand supply trends of the textile industry. This has also helped SRPL establish long relationship with reputed clients in the industry which includes

names like Raymond Limited, Reid & Taylor and Arvind Limited for more than 15 years. Acuité believes SRPL will continue to benefit over the medium term from its longstanding

association with its key customers as well as suppliers.

Healthy Financial risk profile albeit modest Net worth base

The company has a healthy financial risk profile marked by adequate capital structure and coverage indicators, although it has modest net worth base. SEPL's gearing stood at 1.16 times as on March 31, 2021 against 1.29 times as on March 31, 2020. Its tangible net worth stood modest at Rs. 23.05 Cr. as on March 31, 2021 against Rs. 21.25 Cr. in the previous year. The total debt consists of Rs. 26.66 Cr. which includes Rs. 1.66 Cr. of long term debt and Rs 0.52 Cr. of working capital. The rest is unsecured debt from related parties. Total outside liabilities to tangible net worth to (TOL/TNW) stood at 1.35 times. Interest coverage ratio (ICR) has improved in FY2021 to 3.59 times from 2.82 time in FY2020. This is primarily on account of decline in interest cost. DSCR however stood constant at 1.92 times in FY2021 and FY2020. SPRL has undertaken a capacity expansion plan which is expected to be partially funded by long term debt of around Rs.5.79 Cr. Going forward the SRPL's gearing expected to in the range of 1.2-1.3 times and ICR will be in the range of 2.00 – 2.50 times.

Acuité expects SRPL's financial risk profile to improve despite the increased debt on account of improving operating performance.

Weaknesses

Decline in scale of operations on account of Covid 19 induced lockdowns

SRPL's revenue stood modest at Rs. 38.76 Cr. for FY2021 against Rs. 87.17 Cr. for FY2020, a decline of 55.54 per cent. This is primarily on account of spread of Covid 19 and the subsequent lockdowns. Although SRPL's operating margins improved in FY2021 its operating profit declined to Rs. 5.27 Cr in FY2021 against Rs. 9.26 Cr. in FY2020 a decline of 43.12 percent. However as the operating environment has moved towards normalcy SRPL has seen a revival in its scale of operations. Its revenue for 9M FY2022 stood at Rs. 58.08 Cr, with operating profitability of Rs. 8.65 Cr.

Acuité believes SRPL's ability to improve its scale of operations to its pre-COVID levels while maintaining profitability will remain a key rating sensitivity factor.

Elongated Working Capital Cycle during FY21

The company marked moderate working capital management in FY2021. The company reported significant accumulation of inventory levels as on 31st March 2021 resulting in an increase in the inventory holding period to 161 days from 61 days as on 31st March 2020. The increase in the inventory levels can be attributed to the advent of Covid pandemic & lower demands leading to the increase in year-end work in progress inventory levels. Further, YTD numbers ended Dec-21, show a slight elongation in the debtors which stood at Rs. 17 crore as against Rs. 15.01 Cr on 31st March 2021 due to slower realisations. However, the current ratio for the year stood sufficient at 2.26 times as on March 31, 2021 as against 1.94 times as on March 31, 2021. Also, the average CC limits for last 8 months ended Jan-22 remained moderately utilised at only ~69 per cent.

Highly fragmented industry with intense competition

The company has a presence in 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.

Rating Sensitivities

- Timely completion and execution of the planned capacity expansion
- Improvement in scale of operations while maintaining profitability
- Further elongation in the receivables thereby impacting the working capital cycle

Material covenants

None

Liquidity Position

Adequate

The liquidity position continues to remain adequate marked by sufficient net cash accruals to its maturing debt obligations. The company generated cash accruals of Rs.3.23 crore as on March 31, 2021 against maturing debt obligations of Rs.1.85 crore in the same period. The cash accruals of the company are expected to increase in FY2022, and same are expected to be in the range of Rs. 5 -5.5 crore as against the repayment obligations close to Rs.2.00 crore in the same period. The NCA/TD stood at 0.17 times as on March 31, 2021 as against 0.12 times as on March 31, 2020. Current ratio as on 31st March 2021 stood at 2.26 times as against 1.94 times on 31st March 2020. The company maintained unencumbered cash and bank balances of Rs.0.05 crore as on March 31, 2021.

Outlook: Stable

Acuité believes that SRPL will maintain a 'Stable' outlook in the near to medium term on account of its experienced management, established track record of operations and established relations with clients. The outlook may be revised to 'Positive' if the company registers higher-than-expected growth in revenues, while maintaining profitability. The outlook may be revised to 'Negative' in case the company registers substantial decline in revenues or profitability margins adversely affecting financial or liquidity profile

Other Factors affecting Rating

Not Applicable

Key Financials

Particulars	Unit	FY 21 (Actual)	FY 20 (Actual)
Operating Income	Rs. Cr.	38.76	87.17
PAT	Rs. Cr.	1.81	3.56
PAT Margin	(%)	4.66	4.09
Total Debt/Tangible Net Worth	Times	1.16	1.29
PBDIT/Interest	Times	3.59	2.82

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

Not Applicable

Any other information

Not Applicable

Applicable Criteria

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

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
01 Dec 2020	Term Loan	Long Term	4.86	ACUITE BBB- Stable (Reaffirmed)
	Cash Credit	Long Term	12.00	ACUITE BBB- Stable (Reaffirmed)
02 May 2019	Cash Credit	Long Term	12.00	ACUITE BBB- Stable (Reaffirmed)
	Term Loan	Long Term	4.86	ACUITE BBB- Stable (Reaffirmed)
28 Feb 2018	Cash Credit	Long Term	12.00	ACUITE BBB- Stable (Assigned)
	Term Loan	Long Term	4.86	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
Punjab National Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	12.00	ACUITE BBB- Stable Reaffirmed
Punjab National Bank	Not Applicable	Term Loan	Not available	Not available	Not available	4.86	ACUITE BBB- Stable Reaffirmed

Contacts

Analytical	Rating Desk
Aditya Gupta Vice President-Rating Operations Tel: 022-49294041 aditya.gupta@acuite.in	Varsha Bist Senior Manager-Rating Operations Tel: 022-49294011 rating.desk@acuite.in
Jaitashree Hukerikar Analyst-Rating Operations Tel: 022-49294065 jaitashree.hukerikar@acuite.in	

About Acuité Ratings & Research

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