

Press Release

Shree Rayon Private Limited

March 27, 2023

Rating Reaffirmed



Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	14.36	ACUITE BBB- Stable Reaffirmed	-
Bank Loan Ratings	2.50	-	ACUITE A3 Reaffirmed
Total Outstanding Quantum (Rs. Cr)	16.86	-	-

Rating Rationale

Acuite has reaffirmed its long term rating of '**ACUITE BBB-**' (read as **ACUITE triple B minus**) and its short term rating of '**ACUITE A3**' (read as **ACUITE A three**) on the above mentioned bank facilities of Rs.16.86 crore of Shree Rayon Private Limited (SRPL). The outlook is '**Stable**'.

Rationale for Rating Reaffirmation

The rating reaffirmation factors in the stable operating performance of the company marked by stable operating income, marginal decline in the operating margin and moderate financial risk profile of the company. The revenue of the company stood at Rs.82.63 crore in FY2022 compared to revenue of Rs.38.76 crore in FY2021 as against revenue of Rs.87.17 crore in FY2020. The revenue of the company had declined in FY2021 due to the covid pandemic as the company's operations were suspended for few months. The company recorded a turnover of Rs.76.87 crores in 11MFY2023. The ratings are constrained by working capital intensive nature of operations and foreign exchange fluctuation risk. 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 39.00 lakh meters per annum.

Analytical Approach

Acuite 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 to 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.

Moderate financial risk profile

The company has a moderate financial risk profile marked by moderate networth, low gearing and comfortable debt protection metrics. The company has a moderate financial risk profile marked by tangible net worth of Rs.27.49 crore as on 31 March 2022 as against Rs.23.05 crore as on 31 March 2021. The gearing level of the company stood at 0.82 times as on 31 March 2022 as against 1.16 times as on 31 March 2021. The total debt of the company stood at Rs.22.67 crore as on 31 March 2022. It comprised of long-term debt of Rs.3.29 crore, unsecured loan of Rs.10.46 crore and short-term debt of Rs.7.97 crore as on 31 March 2022. The company has undertaken a capacity expansion plan for addition of 24 looms for which it has availed term loan of Rs.2.65 crore in FY2022. It has further availed a GECL loan of Rs.1.32 crore in FY2023 for working capital purposes. The coverage ratios of the company stood moderate with Interest Coverage Ratio (ICR) of 3.96 times for FY2022 against 3.59 times for FY2021. The Debt Service Coverage Ratio (DSCR) stood at 2.03 times for FY2022 against 1.92 times for FY2021. The total outside liabilities to tangible net worth (TOL/TNW) of the company stood at 1.03 times for FY2022 as against 1.35 times in FY2021. Acuité expects SRPL's financial risk profile to remain moderate in medium term.

Weaknesses

Working capital intensive operations

The company's operations are working capital intensive as evident from Gross Current Asset (GCA) of 117 days as on March 31, 2022, as against 242 days as on March 31, 2021. The inventory levels stood at 58 days for FY22 compared against 161 days for FY21. Average inventory holding period for the raw materials is around 55-60 days. The debtor days stood at 37 days for FY22 against 41 days for FY21. The average credit period allowed to the customers is around 30 days. The creditor days of the company stood at 25 days for FY22 as against 44 days for FY21. The company majorly does advance payments to the suppliers to get the yarns at a discounted rate. The average utilization of the CC limits of the company remains low at ~35 percent in last six months ended January 2023. Acuité believes that SRPL's working capital management will remain key monitorable in medium term.

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.

Foreign exchange fluctuation risk

The company deals in exports to various countries across the globe which contributes around ~60-70 per cent to the total revenues in FY2022. As a result, the company's business is exposed to fluctuations in foreign exchange rates.

Rating Sensitivities

Improvement in scale of operations while maintaining profitability
Any stretch in the working capital cycle leading to an increase in reliance on working capital borrowings

Material covenants

None

Liquidity position: Adequate

The company has an adequate liquidity position marked by adequate net cash accruals against its maturing debt obligations. The company generated cash accruals of Rs.6.53 crore in FY2022 compared against maturing debt obligation of Rs.1.85 crore over the same period. The cash accruals of the company are estimated to remain in the range of Rs.8.07-9.06 crore during 2023-25 period while its maturing debt obligations is estimated to be in the range of Rs.1.05-1.32 crore during the same period. The average utilization of the CC limits of the company remains low at ~35 percent in last six months ended January' 2023. The company maintains unencumbered cash and bank balances of Rs.0.04 crore as on March 31, 2022. The current ratio stood at 2.01 times as on March 31, 2022.

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 its financial or liquidity profile

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	82.63	38.76
PAT	Rs. Cr.	4.44	1.81
PAT Margin	(%)	5.37	4.66
Total Debt/Tangible Net Worth	Times	0.82	1.16
PBDIT/Interest	Times	3.96	3.59

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>
- 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>

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
17 Feb 2022	Term Loan	Long Term	4.86	ACUITE BBB- Stable (Reaffirmed)
	Cash Credit	Long Term	12.00	ACUITE BBB- Stable (Reaffirmed)
01 Dec 2020	Term Loan	Long Term	4.86	ACUITE BBB- Stable (Reaffirmed)
	Cash Credit	Long Term	12.00	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
Punjab National Bank	Not Applicable	Buyers Credit	Not Applicable	Not Applicable	Not Applicable	Simple	2.50	ACUITE A3 Reaffirmed
Punjab National Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	12.00	ACUITE BBB- Stable Reaffirmed
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Simple	1.04	ACUITE BBB- Stable Reaffirmed
Punjab National Bank	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	1.32	ACUITE BBB- Stable Reaffirmed

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About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI) for Bank Loan Ratings under BASEL-II norms in the year 2012. Acuité has assigned ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

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