

Press Release

K R Solvent

November 20, 2020



Rating Withdrawn

Total Bank Facilities Rated*	Rs.20.00 Cr.
Long Term Rating	ACUITE BBB- (Withdrawn)
Short Term Rating	ACUITE A3 (Withdrawn)

* Refer Annexure for details

Rating Rationale

Acuité has reviewed and withdrawn the long-term rating of '**ACUITE BBB-**' (**read as ACUITE triple B minus**) and the short-term rating of '**ACUITE A3**' (**read as ACUITE A three**) on the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.20.00 crore bank facilities of K R Solvent (KRS).

The rating withdrawal is in accordance with Acuité's policy on withdrawal of rating and on account of request received from the company and no objection certificate received from bankers.

About the Firm

Gujarat-based, KRS was established as a partnership firm in 2012. It was converted into LLP in 2018. At present, the designated partners are Mr. Husenali Yusufali Narsinh, Ms. Minajbanu Husenali Narsinh, and Mr. Mohamedhasanain Husenali Narsinh. The firm is engaged in manufacturing of cotton linter, cottonseed meal, cottonseed hulk, cotton seed oil which is basically a waste product received from its group companies. The final products are exported to the extent of 50 per cent to Korea, Egypt, Oman and Thailand, among other countries.

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 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

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. Extent of consolidation: Full.

Key Rating Drivers

Strengths

- Experienced management and long 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.

- Reputed clientele with wide geographic diversification**

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.

- **Moderate financial risk profile**

MG's financial risk profile is moderate marked by moderate gearing (debt to equity ratio), total outside liabilities to total net worth (TOL/TNW), and moderate debt protection metrics. The gearing stood at 1.13 times as on 31st March, 2020 (Provisional) against 1.32 times as on 31st March, 2019. TOL/TNW stood at 1.67 times as on 31st March, 2020 (Provisional) against 1.50 times as on 31st March, 2019. Tangible net worth of the group stood at Rs.104.67 Cr as on 31st March, 2020 (Provisional) against Rs.99.10 Cr as on 31st March, 2019. Of the total debt of Rs.118.37 Cr as on 31st March, 2020 (Provisional), long-term debt stood at Rs.63.54 Cr, unsecured loans stood at Rs.3.23 Cr and short-term debt stood at Rs.51.60 Cr. Debt protection metrics of interest coverage ratio (ICR) and net cash accruals to total debt (NCA/TD) stood moderate at 2.81 times and 0.15 times respectively in FY2020 (Provisional). DSCR stood moderate at 1.32 times in FY2020 (Provisional). The group reported cash accruals of Rs.17.34 Cr for FY2020 (Provisional) against moderate repayment obligations of Rs.10.00 Cr. Further, annual cash accruals are expected to be in the range of Rs.16.02 Cr-Rs.25.38 Cr in the medium term against moderate repayment obligations in the range of Rs.8.60 Cr-Rs.10.50 Cr.

Weaknesses

- **Working capital intensive operations**

MG's working capital operations are intensive marked by Gross Current Asset days (GCA) of 187 days in FY2020 (Provisional) against 156 days in FY2019 owing to high inventory and receivable days. The inventory days were recorded at 70 days in FY2020 (Provisional) against 65 days in FY2019. The debtors' days were recorded at 75 days in FY2020 (Provisional) against 48 days in FY2019, which is corresponding to normal terms with customers. However, working capital bank lines remain highly utilized at ~96 percent for the last seven months ended October, 2020.

- **Susceptibility of profitability to fluctuations in raw material prices**

The group is exposed to risks emanating from adverse movements in cotton prices in the domestic and international markets. The operating margins stood at 7.32 percent in FY2020 (Provisional) against 8.20 percent in FY2019. The fluctuations in margins is mainly due to fluctuations in raw material prices. The cotton prices were reduced by 15 percent due to the current market scenario. Also, the increase in the stock of yarns due to low demand in the international market has also impacted the margins.

- **Highly competitive industry**

The group operates in a highly competitive textile industry with several organized and unorganized players which limit the bargaining power.

Rating Sensitivities

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

Material Covenants

None

Liquidity: Adequate

Liquidity of MG is adequate marked by adequate cash accruals to moderate long-term repaying obligations. The group has generated cash accruals of Rs.15.05 Cr-Rs.20.32 Cr during the last three years through 2018-20 against moderate repayment obligations in the range of Rs.10.00 Cr-10.80 Cr. Going forward the net cash accruals are expected to be in the range of Rs.16.02 Cr-25.38 Cr against moderate repayment obligations of Rs.8.60 Cr-Rs.10.50 Cr. Unencumbered cash and bank balances stood at Rs.0.82 Cr as on 31st March, 2020 (Provisional) with a current ratio of 1.73 times in the same period. Liquid investments stood at Rs.1.44 Cr as on 31st March, 2020 (Provisional). The bank lines were utilized at ~96 percent for the last seven months ended October, 2020.

About the Rated Entity - Key Financials

	Unit	FY20 (Provisional)	FY19 (Actual)
Operating Income	Rs. Cr.	377.66	359.96
PAT	Rs. Cr.	3.37	3.91
PAT Margin	(%)	0.89	1.09
Total Debt/Tangible Net Worth	Times	1.13	1.32
PBDIT/Interest	Times	2.81	2.85

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>
- Financial Ratios and Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-59.htm>
- Trading Entities- <https://www.acuite.in/view-rating-criteria-61.htm>
- Consolidation of Companies - <https://www.acuite.in/view-rating-criteria-60.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	Cash Credit	Long Term	13.00	ACUITE BBB-/ Stable (Upgraded)
	Term Loan	Long Term	0.62	ACUITE BBB-/ Stable (Upgraded)
	Bank Guarantee	Short Term	0.42	ACUITE A3 (Upgraded)
	Proposed Bank Facility	Long Term	5.96	ACUITE BBB-/ Stable (Upgraded)
22-Mar-2018	Cash Credit	Long Term	13.00	ACUITE BB+/ Stable (Assigned)
	Term Loan	Long Term	0.58	ACUITE BB+/ Stable (Assigned)
	Term Loan	Long Term	2.01	ACUITE BB+/ Stable (Assigned)
	Bank Guarantee	Short Term	0.42	ACUITE A4+ (Assigned)
	Proposed Bank Facility	Long Term	3.99	ACUITE BB+/ 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
Cash Credit	Not Applicable	Not Applicable	Not Applicable	13.00	ACUITE BBB- (Withdrawn)
Term Loan	Dec-2013	8.55%	Jan-2020	0.62	ACUITE BBB- (Withdrawn)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	0.42	ACUITE A3 (Withdrawn)
Proposed Bank facility	Not Applicable	Not Applicable	Not Applicable	5.96	ACUITE BBB- (Withdrawn)

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About Acuité Ratings & Research:

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