

Press Release

Hinganghat Integrated Textile Park Private Limited

November 20, 2019

Rating Downgraded



| | |
|-------------------------------------|-----------------------------|
| Total Bank Facilities Rated* | Rs. 41.50 Cr. |
| Long Term Rating | ACUITE B+ / Outlook: Stable |

* Refer Annexure for details

Rating Rationale

Acuité has downgraded the long-term rating to '**ACUITE B+**' (read as **ACUITE B plus**) from '**ACUITE BB**' (read as **ACUITE double B**) on the Rs. 41.50 crore bank facilities of HINGANGHAT INTEGRATED TEXTILE PARK LIMITED. The outlook is '**Stable**'.

The rating downgrade is on account of significant delay in project completion vis-à-vis Acuité initial expectation. The delay in project completion will lead to time and cost overrun thereby impacting the near-term cash flows of the company. The Date of Commencement of Commercial Operations (DCCO) has been extended by two years and as per the revised timelines the project is expected to complete by March 2021. Any further extension in DCCO will have a negative bias towards the rating.

Hinganghat Integrated Textile Park Private Limited (HIPL) is a special purpose vehicle incorporated in 2015 by group of reputed entities such as Gimatex Industries Private Limited. The integrated textile park thus set up at Hinganghat, Maharashtra has facilities of Ginning, Yarn Twisting, and Doubling, Spinning, Knitting, Technical Textile and Garmenting, which have been leased out majorly to promoter entities. HIPL is also eligible for Grants from Government of India (GoI).

Analytical Approach

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

Key Rating Drivers

Strengths

- **Experienced management and steady lease arrangements with reputed clients**

The company is promoted by established entities in the textile industry and the management is well experienced in the textile sector. The company is planned to set up an integrated textile park focusing across the value chain of the industry ranging from ginning of raw cotton to garmenting and dyeing units. The company is promoted by experienced leaders such as Mr. Prashant Mohota, Mr. Sushil Kumar Bahety and Mrs. Premlata Mohota. The company is expected to operate with 11 units of which the company has entered into an agreement for 4 units. The company would enjoy the established market presence of the promoters in the industry as promoters also includes entities that have a long track record in the industry.

- **Favorable location**

The proposed textile park is located in proximity to cotton belt in Maharashtra which will ensure constant raw material availability to plants operating in the park. Further, the park is efficiently located with proximity to railways, highways and availability of requisite skilled and unskilled labour force in the nearby area.

Weaknesses

- **Delay in project execution**

The construction of the park was initially expected to be completed by March 2019 and commercial operations of the park were expected to start in April 2019. However, as per the revised project report, the date of completion has been extended by two years with a revised date of completion to March 2021. Acuité believes, timely completion of project as per the schedule and company's ability to attract customer advances will remain the key rating sensitivity for the company.

• Funding and Implementation risk

HIPL is currently developing the textile park with an estimated total cost of about Rs.117.18 crore. The project is proposed to be funded out by bank funding of about Rs. 41.50, Grants under SITP of Rs. 40.00 crore, Grants under state government of Rs. 9.00 crore and remaining through promoter's contribution of Rs.26.68 crores in the mix of unsecured loans and equity infused. Currently, the construction work is ~50 per cent complete and ~Rs.19.35 crore has been already brought in by promoters (including unsecured loans), Government Grants of ~Rs.10 crore and term loan of Rs.17.3 crore. HIPL has entered into an MOU with promoter entities for leasing of about total 11 manufacturing facilities. Acuite believes timely completion of project coupled with healthy sales/lease traction will remain a key monitorable.

Rating Sensitivities

- Further delay in construction
- Funding risk

Material Covenants

None

Liquidity position: Stretched

Liquidity of HIPL is stretched on account of delay in project execution leading to lower than expected cash accruals. The company has been able to book four units which is expected to generate net cash accruals of around Rs. 0.3-1.4 crore during 2019-21 while its repayment obligation is estimated to be ~Rs.5 crore starting FY2022. HIPL maintains unencumbered cash and bank balances of Rs. 0.42 crore as on March 31, 2019.

Outlook: Stable

Acuite believes that HIPL's financial risk profile is likely to remain stable on account of experience of its management. The outlook may be revised to 'negative' if there is higher-than-expected delay in project implementation and decline in its revenues or profitability or more-than-anticipated delay in realization of receivables or larger-than expected time or cost overrun leading to lower than expected accruals. The outlook may be revised to 'Positive' if the company is able to significantly ramp up the construction of the project, leading to improvement in its scale of operations and in turn its cash accruals.

About the Rated Entity - Key Financials

| | Unit | FY19 (Actual) | FY18 (Actual) | FY17 (Actual) |
|-------------------------------|---------|---------------|---------------|---------------|
| Operating Income | Rs. Cr. | 0.96 | 1.26 | 0.16 |
| EBITDA | Rs. Cr. | 0.42 | 0.33 | (0.02) |
| PAT | Rs. Cr. | 0.13 | 0.16 | 0.04 |
| EBITDA Margin | (%) | 43.09 | 25.79 | (11.97) |
| PAT Margin | (%) | 13.47 | 12.55 | 22.04 |
| ROCE | (%) | 0.55 | 1.36 | 0.71 |
| Total Debt/Tangible Net Worth | Times | 3.55 | 3.13 | 0.38 |
| PBDIT/Interest | Times | 257.21 | 433.84 | - |
| Total Debt/PBDIT | Times | 54.82 | 45.61 | 34.70 |
| Gross Current Assets (Days) | Days | 2,092 | 1,276 | 7,933 |

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

Not applicable.

Any other information

None.

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.htm>
- Entities in the Service Sector- <https://www.acuite.in/view-rating-criteria-8.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

| Date | Name of Instrument / Facilities | Term | Amount (Rs. Cr.) | Ratings/Outlook |
|-------------|---------------------------------|-----------|------------------|------------------------------|
| 11-Jun-2019 | Term Loan | Long Term | 41.50 | ACUITE BB (Indicative) |
| 27-Mar-2018 | Term Loan | Long Term | 41.50 | 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 |
|------------------------|------------------|----------------|----------------|-----------------------------|---|
| Term Loans | Not Applicable | Not Applicable | Not Applicable | 41.50 | ACUITE B+ / Stable (Downgraded from ACUITE BB/Stable) |

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About Acuité Ratings & Research:

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