

Press Release

Phenix Spinning Private Limited

November 14, 2019

Rating Reaffirmed and Assigned



Total Bank Facilities Rated*	Rs. 31.00 Cr.
Long Term Rating	ACUITE BBB- / Outlook: Stable (Reaffirmed and Assigned)
Short Term Rating	ACUITE A3 (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuite has reaffirmed and assigned the long-term rating of '**ACUITE BBB-**' (read as **ACUITE tripe B minus**) and short term rating of '**ACUITE A3**' (read as **ACUITE A three**) on the Rs. 31.00 crore bank facilities of Phenix Spinning Private Limited (PSPL). The outlook is '**Stable**'.

PSPL, incorporated in 2014, based at Amreli (Gujarat) is engaged in manufacturing and export of cotton yarn. The company has cotton ginning and yarn manufacturing facilities at Amreli. Currently, the company has installed 17,960 spindles and exports contribute to 90.00 percent of revenues. The major products of the company include 30s Carded Knitting yarn and 20s Combed Knitting yarn.

Analytical Approach

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

Key Rating Drivers

Strengths

• Experienced management

The company was established by Mr. Dharmesh Patel, Mr. Dhaval Patel, Mr. Dharmendra Hirpara, Mr. Tejas Patel and Mr. Jigar Rupala among others. The key promoters have diversified experience of more than a decade in various industries like textile, food processing, real estate construction, and plastic. The experience of promoters has helped the company in smooth execute of the project and establish customer and supplier base.

• Moderate financial risk profile

The moderate financial risk profile of is marked by its healthy net worth, comfortable gearing and debt protection metrics. The net worth stood at healthy levels of Rs. 37.08 crore as on 31 March, 2019 as against Rs. 36.42 crore in the previous year. The debt-equity (Gearing) stood comfortable at 0.57 times as on 31 March, 2019 which has improved from 0.70 times in the previous year. The gearing ratio has remained low in the past three years ended 31 March, 2019. The interest coverage ratio stood comfortable at 4.02 times in FY2019 and 3.05 times in FY2018. TOL/TNW ratio stood at 0.60 times in FY2019 as against 0.70 times in FY2018. The Debt Service Coverage Ratio (DSCR) also stood moderate at 1.46 times for FY2019.

• Comfortable working capital cycle

The working capital cycle stood comfortable marked by improving Gross Current Asset (GCA) days of 89 in FY2019 as compared to 73 days in FY2018 respectively. The comfortable GCA days are on account of low debtor days of 11 in FY2019 and 15 days in FY2018. PSPL on an average provides credit period of 15 to 30 days to its domestic customers and 100 percent advance for the exports. The inventory is generally maintained between 45 - 75 days for its products which is observed during FY2019 and FY2018 respectively. However, same has increased to 72 days in FY2019. The comfortable working capital cycle is reflected from the low utilisation of ~16.74 percent of its working capital facilities of Rs.7.00 crore during the last six month ended September 2019.

Weaknesses

• Client concentration risk and decline in margins

The company started its commercial operations since 2015 and exports its products through merchant exporters. The exports contribute about 90 to 95 percent of the total sales and the top three merchant exporters contribute to 93.30 percent in FY2019 and 90.35 percent in FY2018 of total sales. This exposes company to concentration risk in terms of marketing and selling of their products. If any change in terms or dispute with the intermediates will result in decline in sales and margins. The company has started tapping new markets and plans to market their products in different countries which will reduce the concentration risk to certain extent. Further, operating margins of the company have declined to 10.24 percent in FY2019 as compared to 14.40 percent in FY2018. The PAT margins has also decline to 0.66 percent in FY2019 as against 1.81 percent in FY2018. The decline is due to increase in raw material prices and increase in operational cost. Acuite believes maintaining existing level of operating and profitability margins will remain a key rating sensitivity factor.

• Highly fragmented textile industry

The Indian textile industry is highly fragmented and competitive marked by presence of large number of organised and unorganised players. This restricts company pricing flexibility and bargaining power with its customers. However, the company is able to charge premium from its customer's for its products by maintaining high quality. The Current ratio of the company stood at 2.97 times for FY2019 as against 3.17 times for FY2018.

Liquidity Position: Adequate

The liquidity profile of the company is adequate marked by net cash accruals of Rs. 7.50 – 10.50 crore for period under review for FY2017-19 as against repayment obligation of Rs.4.45 crores. The net cash accruals will remain adequate over the period marked by improving scale of operations and revenues. The Current ratio stood at 2.97 times for FY2019 as against 3.17 times for FY2018. The working capital cycle stood comfortable marked by improving Gross Current Asset (GCA) days of 89 in FY2019 as compared to 73 days in FY2018 respectively. The Working capital limits utilisation stood at 16.74 percent for last six months ending September 2019.

Outlook: Stable

Acuite believes that PSPL will continue to maintain 'Stable' outlook over the medium term from its promoter's industry experience. The outlook may be revised to 'Positive' if the company reports increased operating revenues while sustaining its margins and cash accruals. Conversely, the outlook may be revised to 'Negative' in case of any further decline in operating and profitability margins leading to deterioration of its financial risk profile and liquidity profile.

Rating Sensitivities

- Improving scale of operations
- Sustainability of operating and profitability margins
- Maintaining existing levels of working capital cycle

Material Covenants:

Not Any

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	99.11	94.60	79.85
EBITDA	Rs. Cr.	10.15	13.62	13.93
PAT	Rs. Cr.	0.65	1.71	1.62
EBITDA Margin	(%)	10.24	14.40	17.45
PAT Margin	(%)	0.66	1.81	2.03
ROCE	(%)	6.10	8.57	8.68
Total Debt/Tangible Net Worth	Times	0.57	0.70	1.00
PBDIT/Interest	Times	4.02	3.05	2.82
Total Debt/PBDIT	Times	1.99	1.79	2.37
Gross Current Assets (Days)	Days	89	73	108

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

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Manufacturing Entities- <https://www.acuite.in/view-rating-criteria-4.htm>
- Trading entities-<https://www.acuite.in/view-rating-criteria-6.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
01-Oct-2018	Cash Credit	Long Term	7.00	ACUITE BBB-/Stable (Assigned)
	Term loans	Long Term	22.45	ACUITE BBB-/Stable (Assigned)
	Bank Guarantee	Short Term	1.55	ACUITE A3 (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	7.00	ACUITE BBB-/Stable (Reaffirmed)
Term loans	Not Applicable	Not Applicable	Not Applicable	16.65	ACUITE BBB-/Stable (Reaffirmed)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	1.55	ACUITE A3 (Reaffirmed)
Proposed Facility	Not Applicable	Not Applicable	Not Applicable	5.80	ACUITE BBB-/Stable (Assigned)

Contacts

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About Acuité Ratings & Research:

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