

Press Release

Sri Bhagirath Textiles Limited

January 06, 2020



Rating Reaffirmed

Total Bank Facilities Rated*	Rs. 162.60 Cr.
Long Term Rating	ACUITE A- / Outlook: Stable (Reaffirmed)
Short Term Rating	ACUITE A2+ (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed the long-term rating of '**ACUITE A-**' (**read as ACUITE A minus**) and the short-term rating of '**ACUITE A2+**' (**read as ACUITE A two plus**) to the Rs.162.60 crore bank facilities of SRI BHAGIRATH TEXTILES LIMITED (SBTL). The outlook is '**Stable**'.

The Nagpur based, SBTL is a flagship company of Shri Bhagirath Rander Group incorporated in 1991 by Mr. Ramesh Rander. SBTL is engaged in the trading of cotton bales (~38 percent of total revenue) and spinning of cotton, viscose and blended yarn (~62 percent of total revenue) in the counts of 10s to 60s. The company has three manufacturing units in Nagpur (Maharashtra) with a total of 2,160 rotors and 30,000 spindles having a total installed manufacturing capacity of 14,940 MT per annum.

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of SBTL to arrive at this rating.

Key Rating Drivers

Strengths

• **Established presence in yarn industry and experienced management**

Incorporated in 1991 by Mr. Ramesh Rander, SBTL has been engaged in the textile industry for more than two decades. Further, the promoters have been associated with this industry since 1946 through its group companies and have gained a significant amount of experience along with maintaining healthy and long-term relationship with its customers and suppliers. Extensive experience of the promoters in the textile industry has helped the company in maintaining longstanding relations with some of the reputed players in the industry. SBTL's longstanding relations with its existing customers and suppliers aid the company in securing repeat orders on a regular basis supported by timely availability of raw materials.

• **Moderate financial risk profile**

The financial risk profile continues to remain moderate marked by healthy net worth, moderate gearing and moderate debt protection measures. The tangible net worth stood at Rs. 111.71 crore as on 31 March, 2019 (includes Rs.50.00 crore of unsecured loans from the promoters and Rs.15.00 crore redeemable preference share capital (redeemable after a period of 12 years)) as against Rs.104.05 crore as on 31 March, 2018 and Rs.91.43 crore as on 31 March, 2018. Acuité believes that the net worth of the company will remain healthy backed by infusion of quasi capital, its healthy revenue growth and stable operating margins leading to healthy accretion to reserves. The gearing stood moderate at 1.18 times as on 31 March, 2019 as against 1.33 times as on 31 March, 2018 and 1.57 times in the previous year. The total borrowings of Rs.131.64 crore as on 31 March, 2019 comprises of long-term borrowings to the tune of Rs. 62.33 crore, short term borrowings of Rs. 64.79 crore and unsecured loans of Rs.4.52 crore.

The net cash accruals stood at Rs.17.42 crore for FY2019 against debt repayment of ~Rs.12.40 crore. The net cash accruals are expected to remain in the range of Rs. 20.00-27.00 crore in the near term against repayment obligations of ~Rs. 12.00-13.00 crore. The interest coverage ratio (ICR) stood at 2.32 times in FY2019 as against 2.45 times in FY2018 and 2.29 times in FY2017. The DSCR stood at 1.15 times in FY2019 against 1.21 times in FY2018.

The total outside liabilities to tangible net worth stood at 1.59 times as on 31 March, 2019 as against 1.77 times as on 31 March, 2018. Acuité believes that the debt protection metrics will improve on account of

healthy revenue visibility and stable operating margins over the medium term. Acuité believes that SBTL's liquidity will remain adequate in the absence of any major debt funded capital expenditure, healthy cash accruals vis-à-vis its moderate incremental working capital requirements.

• **Moderate financial risk profile**

SBTL has moderate scale of operations marked by an operating income of Rs.439.55 crore in FY2019 as against Rs. 447.95 crore in FY2018 and Rs.481.88 crore in FY2017. The reason for decline in revenue in FY2019 is on account of low cotton crop generation in that period. SBTL's revenue mix consists of ~62 percent from spinning in FY2019 (PY: ~55 percent) and ~38 percent from trading of cotton bales (PY: ~45 percent). This has led to improvement in profitability margins which is visible from the increase in operating margins to 7.54 percent in FY2019 against an operating margin of 6.17 percent in FY2018. Also, the company has started undertaking value addition by manufacturing fabrics on job work basis. Acuité believes that the company's ability to register significant growth in its revenues while improving its profitability would be key rating sensitivity.

Weaknesses

• **Susceptibility of margins to fluctuations in raw material prices and government regulations**

SBTL's major raw material includes cotton (~60 percent) and viscose (~40 percent). Cotton being an agricultural commodity by nature, the margins are susceptible to changes in cotton prices. Cotton availability and price of the same is highly dependent on agro-climatic conditions. Despite the prevalence of Minimum Support Price (MSP), the purchase price depends on the prevailing demand-supply situation which limits bargaining power with the suppliers as well. Although, this risk is slightly mitigated as the company carries out 100 percent order backed trading and ~75 percent order backed spinning.

Rating Sensitivities

- Stretch in working capital cycle leading to increased reliance on working capital borrowings.
- Substantial improvement in scale of operation (~Rs. 470.00-500.00 crore), while maintaining profitability margin of around 8.0-9.0 per cent over the medium term.

Material Covenants

None

Liquidity position: Adequate

SBTL maintains adequate liquidity position marked by net cash accruals of Rs.17.42 crore in FY2019 as against long term debt obligations of Rs.12.40 crore over the same period. The company has a efficient working capital cycle marked by Gross Current Assets (GCA) of 112 days in FY2019 as compared to 106 days in FY2018. Further, the cash credit limit of the firm remained utilised at 94 percent during the last twelve months ended October, 2019. The current ratio of the company stood at 1.10 times as on March 31, 2019. Acuité believes that the liquidity of the company is likely to remain adequate over the medium term backed by healthy net cash accruals and increasing revenues.

Outlook: Stable

Acuité believes that the outlook of SBTL will remain 'Stable' over the medium term on account of the promoters' extensive experience, established presence in the textile industry and healthy financial risk profile. The outlook may be revised to 'Positive' in case the company registers significant growth in revenue and profitability while effectively managing its working capital cycle. The outlook may be revised to 'Negative' in case of significantly lower than expected net cash accruals or lengthening of the working capital cycle; thereby resulting in deterioration in the financial risk profile or liquidity position of the company.

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	439.55	447.95
PAT	Rs. Cr.	7.66	8.08
PAT Margin	(%)	1.74	1.80
Total Debt/Tangible Net Worth	Times	1.18	1.33
PBDIT/Interest	Times	2.32	2.45

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>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-59.htm>
- Trading Entities - <https://www.acuite.in/view-rating-criteria-61.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
15-Oct-2018	Cash Credit	Long Term	50.00*	ACUITE A- /Stable (Assigned)
	Short Term Demand Loan	Short Term	20.00	ACUITE A2+ (Assigned)
	Standby Line of Credit	Long Term	6.00	ACUITE A- /Stable (Assigned)
	Term Loan I	Long Term	45.14	ACUITE A- /Stable (Assigned)
	Term Loan II	Long Term	12.69	ACUITE A- /Stable (Assigned)
	Term Loan III	Long Term	14.28^	ACUITE A- /Stable (Assigned)
	Bank Guarantee	Short Term	10.00	ACUITE A2+ (Assigned)
	Proposed Bank Facility	Long Term	4.49	ACUITE A- /Stable (Assigned)

*Includes Sublimit of Rs.10.00 crore of EPC/PCFC, Rs.10.00 crore of EBD/EBR and Rs.10.00 crore of Letter of Credit.

^Includes sublimit of Capex LC of Rs. 10.00 Crore

***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	50.00*	ACUITE A- /Stable (Reaffirmed)
Short Term Demand Loan	Not Applicable	Not Applicable	Not Applicable	20.00	ACUITE A2+ (Reaffirmed)
Standby Line of Credit	Not Applicable	Not Applicable	Not Applicable	6.00	ACUITE A- /Stable (Reaffirmed)
Term Loan I	Not Applicable	Not Applicable	Not Applicable	36.00	ACUITE A- /Stable (Reaffirmed)
Term Loan II	Not Applicable	Not Applicable	Not Applicable	9.00	ACUITE A- /Stable (Reaffirmed)
Term Loan III	Not Applicable	Not Applicable	Not Applicable	9.50	ACUITE A- /Stable (Reaffirmed)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE A2+ (Reaffirmed)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	22.10	ACUITE A- /Stable (Reaffirmed)

*Includes sublimit of Rs.4.50 crore of EPC/PCFC of Cash Credit

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About Acuité Ratings & Research:

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