Press Release

Sri Bhagirath Textiles Limited

February 08, 2021

Rating Reaffirmed and Assigned

Total Bank Facilities Rated*	Rs.162.60 Cr.
Long Term Rating	ACUITE A-/ Outlook: Stable (Reaffirmed and Assigned)
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 short term rating of **'ACUITE A2+' (read as ACUITE A two plus)** on the Rs.162.60Cr bank facilities of SRI BHAGIRATH TEXTILES LIMITED (SBTL). The outlook is **'Stable'**.

Rationale for rating reaffirmation

The rating reaffirmation factors in the comfort derived from established track record of operations, experienced management, moderate financial risk profile and adequate liquidity position of the company. The rating derived also reflects decline in the scale of operations in FY2020 and working capital intensive nature of operations. Decline in scale of operations of SBTL is marked by operating income of Rs.367.42Cr in FY2020 as against Rs.439.55Cr in FY2019, thereby resulting in fall of 16.41 per cent. This decline is on account of decline in trading activity (which accounted for 36.89 per cent of the total revenue in FY2019 as against 26.76 percent in FY2020), and impact of covid-19 in the last quarter of FY2020. However, the operating margins have increased marginally to 7.85 per cent in FY2020 as compared to 7.54 per cent in FY2019.

Further, the overall financial risk profile is moderate owing to strong net worth, moderate gearing and debt-coverage indicators. These rating strengths are partially offset by its working capital intensive operations, susceptibility to fluctuation in raw material prices and government regulation.

About the Company

Sri Bhagirath Textiles Limited is a flagship company of Shri Bhagirath Rander Group. The company was incorporated in the year 1991 by Mr. Ramesh Rander. The company is engaged in trading of cotton bales and spinning of cotton, viscose and blended yarn in the counts of 10s to 60s. The company has three manufacturing units located in Nagpur (Maharashtra) with an installed manufacturing capacity of 16,540 MTPA. The product line of the company includes 100 percent cotton ring yarns, Specialty yarns, blended yarns, open end yarns and two ply yarns.

About the Group

Sri Bhagirath Rander Group is a Nagpur-Maharashtra based group established in the year 1946. The group was founded by Shr.Bhagirathji Rander. The group has well established and diversified its operation across sectors ranging from Textiles, Commodities, Natural Stones and Infrastructural Development to Realty. The group has four companies. Besides Sri Bhagirath Textiles Limited other group companies are Srigopal Rameshkumar Sales Private Limited, Multiurban Infra Services Private Limited and Maheshwary Marbles and Granites Private Limited.

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of Sri Bhagirath Textiles Limited to arrive at this rating.

Key Rating Drivers

Strengths

• Established track record of operations and experienced management

SBTL was incorporated in the year 1991 by Mr. Ramesh Rander. The company has an established track record of operation of more than three decades in the textile industry. Further, the promoters have been associated with the aforementioned industry since 1946 through its group companies and have gained significant amount of experience along with maintaining healthy and long term relationship with its customers and suppliers. The extensive experience of the promoters and established track record of operation has helped the company to maintain longstanding relations with some of the reputed players in the industry and aid the company in securing repeated orders on a regular basis supported by timely availability of raw materials. Currently the company is selling the products under its own brand name- Bhagirath Red and Bhagirath Orange. The company is also engaged in exporting.

Acuité believes that the company will benefit from its experienced management and long track of operation.

• Moderate Financial Risk Profile

SBTL's financial risk profile is moderate marked by strong net worth, moderate gearing coupled with moderate debt protection metrics and coverage indicators. The company's net worth stood at Rs.114.57Cr as on March 31, 2020 as against Rs.111.71Cr as on March 31, 2019. The net worth of the company includes Rs.50.00Cr of unsecured loans which has been treated as quasi equity and Rs.15.00Cr as redeemable preference share capital. The company has followed moderately aggressive financial policy in the past, with its peak gearing and total outside liabilities to tangible net worth (TOL/TNW) of 1.33 times and 1.77 times respectively as on March 31, 2018. As on March 31, 2020, the gearing and total outside liabilities to tangible net worth (TOL/TNW) has improved to 1.12 times and 1.53 times respectively. The company on the other hand generated cash accruals of Rs.13.83Cr in FY2020 as against Rs.17.42Cr in FY2019.

The decline in the profitability level, coupled with moderate debt level, has led to moderate debt protection measures. The NCA/TD and interest coverage ratio for FY2020 stands at 0.11 times and 2.90 times respectively. The debt service coverage ratio stood 1.06 times in FY2020 as against 1.15 times in FY2019. The Debt-EBITDA ratio stands at 3.81times in FY2020.

Acuite believes the financial risk profile of the company will continue to remain moderate on account of its healthy revenue growth, moderate cash accruals along with significant debt funded capex in near to medium term.

• Moderate scale of operations backed by recent capacity additions

SBTL has moderate scale of operation marked by operating income of Rs.367.42Cr in FY2020 as against Rs.439.55Cr in FY2019. The decline in the revenue in FY2020 is due shift in the business line more into manufacturing segment as compared to the trading segment. This could be witnessed by the revenue generated from the manufacturing segment of Rs.266.18Cr in FY2020 as Rs.275Cr in FY2019 and from trading segment Rs.98.53Cr in FY2020 as against Rs.162.18Cr in FY2019. Moreover, the decline in the revenue is also due to supply chain disruption due to nationwide lockdown in view of Covid-19 pandemic in the month of March, 2020. EBITDA has declined to Rs.28.68Cr in FY2020 as against Rs.33.16Cr in FY2019. PAT of the company has declined significantly to Rs.3.12Cr in FY2020 as against Rs.7.66Cr in FY2019. This is due to increase in the tax from Rs.2.4Cr in FY2019 to Rs.8.28Cr in FY2020. This is because as per the new section introduced by the Income Tax Act, the company has forgone the MAT credit entitlement so as to reduce the rate of the corporate tax.

In FY2020, the total installed capacity of the company has increased to 16,540 MTPA. The company is going to undertake modernization in the plant through a capex in the range of Rs.22.00-Rs.23.00Cr. This capex plan is to be funded through bank loans of Rs.15.00Cr, Rs.5.00Cr of capital will be infused by the promoters and the remaining will be through the internal accruals. This capex plan will help the company to reduce the manual intervention and manufacture the product in an efficient manner. Also the company has started undertaking value addition by manufacturing fabrics on job work basis. Moreover, the company has changed the composition of some of its products which has helped the company to sell their product in the market at a premium price. During the current financial year, the inventory level of cotton was increased due to good crop production and subsequent lockdown in view of Covid-19, for which the Cotton Corporation of India did auctioning of the cotton. The company had participated and was able to procure bulk orders comparatively at a lower price. It is expected that the company is going to get the benefit of it in the near to medium term.

Acuite believes that the revenue of the company will improve over the medium term on account of undergoing capex plan, change in the composition of the product, procurement of the product from CCI in a bulk amount and also increase in the demand of the products.

Weaknesses

- **Working capital operation is intensive in nature**

SBTL's working capital operation is intensive in nature as it is reflected by its gross current asset (GCA) days of around 148 days in FY2020 as against 112 days in FY2019. The inventory holding period has increased to 59 days as on March 31, 2020 as against 43 days as on March 31, 2019. The increase in the inventory holding period in FY2020 was due to piling up of the finished product due to supply chain disruption in view of Covid-19 pandemic. The debtor collection period stood at 43 days as on March 31, 2020 as against 51 days as on March 31, 2019. On the other hand the company's credit payment period stood at 44 days as on March 31, 2020 as against 37 days as on March 31, 2019. The average bank limit utilization stood high at around 94.78 percent for six months ended November, 2020, while its peak utilization was high at around 99.58 percent during the same period.

Acuite expects the working capital management to remain intensive over the medium term on account of high inventory holding period which is inherent in the aforementioned industry.

- **Susceptibility of margins to fluctuations in raw material prices and government regulation**

SBTL's major raw material includes cotton and viscose. Cotton being an agricultural commodity by nature, the margins are susceptible to change in the cotton prices. Cotton availability and price of the same is highly dependent on agro-climatic conditions. Despite the prevalence of Minimum Support Price, the purchase price depends on the prevailing demand –supply situation which limits bargaining power with the suppliers as well. However, this risk is mitigated as the company carries out 100 percent order backed trading and nearly 75 percent order backed spinning. The profitability margin of the company is improving for last three years under the study due to ore focus on the manufacturing segment as compared to the trading segment. The operating margin stood at 7.85 percent in FY2020 as against 7.54 percent in FY2019. However, the profit margin has declined to 0.85 percent in FY2020 as against 1.74 percent in FY2019.

Acuite expects maintaining a stable profitability margin for the group will remain a key sensitive factor.

Liquidity Position: Adequate

The company has adequate liquidity marked by healthy net cash accruals to its maturing debt obligations. The company generated cash accruals of Rs.13.83 Cr in FY2020, while its' maturing debt obligation were in the range of Rs.9.00Cr to Rs.12.00Cr for the same period. The cash accrual of the company is estimated to remain around Rs.20.00 Cr to Rs.30.00 Cr during 2021-23 against repayment obligations of around Rs.9.00Cr to Rs.12.00Cr during the same period. The company's working capital operations is intensive in nature marked by the gross current asset (GCA) days of 148 days in FY2020 as against 112 days in FY2019. The average bank limit utilization stood high at around 94.78 per cent for six months ended November, 2020. The company maintains unencumbered cash and bank balances of Rs.0.19 Cr as on 31 March 2020. The current ratio of the company has improved to 1.23 times as on 31 March 2020 from 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 on account of adequate cash accruals to its maturing debt obligation.

Rating Sensitivities

- Substantial improvement in the scale of operation, while maintaining the profitability margin
- Any stretch in the working capital cycle will lead to increase reliance on working capital borrowings

Outlook: Stable

Acuité believes that the company will maintain a stable outlook over the medium term backed by its experienced management, established track record of operation in the aforementioned industry and moderate financial risk profile. The outlook may be revised to 'Positive', if the company registers higher than expected growth in its revenue while improving its operating margins from its current levels along with efficient working capital management. Conversely, the outlook may be revised to "Negative", if the company registers lower than expected growth in revenues and profitability or in case of deterioration in the company's financial risk profile or significant elongation in the working cycle.

About the Rated Entity - Key Financials

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	367.42	439.55
PAT	Rs. Cr.	3.12	7.66
PAT Margin	(%)	0.85	1.74
Total Debt/Tangible Net Worth	Times	1.12	1.18
PBDIT/Interest	Times	2.90	2.32

Any other information

None

Any Material Covenants

None

Applicable Criteria

- Default Recognition - https://www.acuite.in/view-rating-criteria-52.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-53.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
06-Jan-2020	Cash Credit	Long Term	50.00*	ACUITE A-/Stable (Reaffirmed)
	Short Term Demand Loan	Long Term	20.00	ACUITE A-/Stable (Reaffirmed)
	Standby Line of Credit	Long Term	6.00	ACUITE A-/Stable (Reaffirmed)
	Term Loan-I	Long Term	36.00	ACUITE A-/Stable (Reaffirmed)
	Term Loan-II	Long Term	9.00	ACUITE A-/Stable (Reaffirmed)
	Term Loan-III	Long Term	9.50	ACUITE A-/Stable (Reaffirmed)
	Bank Guarantee	Short Term	10.00	ACUITE A2+ (Reaffirmed)
	Proposed Bank Facility	Long Term	22.10	ACUITE A-/Stable (Reaffirmed)
15-Oct-2018	Cash Credit	Long Term	50.00*	ACUITE A-/Stable (Assigned)
	Short Term Demand Loan	Long Term	20.00	ACUITE A-/Stable (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 EC/PCFC to the extent of Rs.4.50Cr*

***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)
Warehouse Receipt	Not Applicable	Not Applicable	Not Applicable	20.00	ACUITE A-/Stable (Reaffirmed)
Standby Line of Credit	Not Applicable	Not Applicable	Not Applicable	6.00	ACUITE A-/Stable (Reaffirmed)
Term Loan-I	January 01, 2015	12.05%	March 31, 2023	29.99	ACUITE A-/Stable (Reaffirmed)
Term Loan-II	March 31, 2016	12.05%	March 31, 2023	7.52	ACUITE A-/Stable (Reaffirmed)
Term Loan-III	January 01, 2018	12.05%	January 01, 2025	7.82	ACUITE A-/Stable (Reaffirmed)
Term Loan-IV	Not Available	7.40%	Not Available	5.00	ACUITE A-/Stable (Assigned)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE A2+ (Assigned)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	26.27	ACUITE A-/Stable (Reaffirmed)

** Includes sublimit of EC/PCFC to the extent of Rs.4.50Cr*

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