

Press Release

Sri Bhagirath Textiles Limited

April 28, 2022



Rating Reaffirmed and Reaffirmed & Withdrawn

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	20.00	ACUITE A- Reaffirmed & Withdrawn	-
Bank Loan Ratings	293.00	ACUITE A- Negative Reaffirmed Stable to Negative	-
Bank Loan Ratings	7.00	-	ACUITE A2+ Reaffirmed
Total Outstanding Quantum (Rs. Cr)	300.00	-	-
Total Withdrawn Quantum (Rs. Cr)	20.00	-	-

Rating Rationale

Acuite 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.300 Cr bank facilities of SRI BHAGIRATH TEXTILES LIMITED (SBTL). The outlook is revised to 'Negative' from 'Stable'.

Also, Acuite has reaffirmed & withdrawn the long term rating of 'ACUITE A-' (read as ACUITE A minus) on the Rs. 20 Cr bank facilities of SRI BHAGIRATH TEXTILES LIMITED (SBTL). The rating is being withdrawn on account of the request received from the company and no dues letter received from the banker as per Acuite's withdrawal policy.

Key reason for revision in outlook

The revision in outlook is on account heightened risk perceived in the implementation of the ongoing capital expenditure which is likely to impact the liquidity position of the company reflected through increased utilization of working capital limits. Acuite in further discussions with the management has learnt that a substantial portion of the promoter infusion is dependent on timely monetization of a land parcel and internal accruals. Acuite is of the opinion, that the working capital lines are already highly utilized and usage of the internal accruals to fund the creation of assets, is likely to lead to short term liquidity mismatches and increased reliance on external funding sources to sustain the growth in operations. Furthermore, given the uncertainty around such high value transactions, regarding the timing and the realizable value there could be delays in commissioning of the project and the liquidity is likely to remain impacted.

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. The Company is currently undertaking capital expenditure to expand its

spinning capacity by 6671 MTPA and establish a 6545 MTPA knitting unit near its existing facilities in Mohali, Nagpur.

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. In FY2021, the Company has launched a new type of cotton cum viscose based yarn, which is marketed under brand name 'Diamond'. The company is also engaged in exporting. In 10MFY2022 SBTL has done a turnover of Rs.449.28 Cr out of which Rs. 75 Cr is export sales to Bangladesh. In FY2021, out of the Company's total sales of Rs. 676.04 Cr, Rs. 15 Cr comprised of export sales. SBTL plans to expand its reach in the export market over the medium term, and expects to generate ~Rs.100 Cr as export revenue by year end.

Acuité believes that the company will continue to benefit from its experienced management and long track of operation over the medium term.

> Moderate financial risk profile

SBTL's financial risk profile is moderate marked by strong net worth, moderate gearing coupled with comfortable debt protection metrics and coverage indicators. The company's net worth stood at Rs.130.88 Cr as on March 31, 2021 as against Rs.114.57 Cr as on March 31, 2020. The net worth of the company includes Rs.50.00 Cr of unsecured loans and Rs.15.00Cr of redeemable preference share capital, treated as quasi equity. 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, 2021, the gearing and total outside liabilities to tangible net worth (TOL/TNW) has improved to 0.94 times and 1.34 times respectively. The company generated cash accruals of Rs.21.87Cr in FY2021 as against Rs.13.83Cr in FY2020. The improved profits, coupled with moderate debt level, has led to comfortable debt protection measures. The NCA/TD and interest coverage ratio for FY2021 stood at 0.18 times and 3.19 times respectively for FY2021 as against 0.11 times and 2.90 times respectively for FY2020. The debt service coverage ratio stood at 1.61 times in FY2021 as against 1.06 times in FY2020. The Debt-EBITDA ratio stands at 3.28 times in FY2021 as against 3.81 times in FY2020.

The Company is currently undergoing a capital expenditure of Rs.203.73 Cr to be funded by

debt of Rs.141.88 Cr and promoter contribution of Rs.61.85 Cr. The promoter contribution which was earlier planned to be met fully by infusion of additional funds, will now be partly met by internal accruals. The capex is expected to be completed by end of FY2023 and commence production from April, 2023 onwards.

Acuite believes considering the ongoing capex, the SBTL financial risk profile will continue to remain moderate over the medium term.

> Moderate scale of operations

The Company's operating income stood at Rs.676.67 Cr in FY2021 as against Rs.367.42 Cr in FY2020. In 10MFY22, operating income stood at Rs.449.28 Cr. The growth in operating income in FY21 was driven by surge in trading of cotton bales. The Company derives majority of its revenue from trading of cotton bales and manufacturing of yarn. In FY2021 the Company generated Rs.400.27 Cr of income from trading of cotton bales as against Rs.98.35 Cr in previous year. The Cotton Corporation of India Limited (CCI), a public sector undertaking set up by the Ministry of Textile, had auctioned large quantities of cotton bales at discounted prices during the year FY2021. SBTL participated in these auctions and procured cotton bales in bulk which it used partly for its own consumption and sold balance to other traders and yarn manufacturers. This trade drove the surge in income in FY2021. During the current year, SBTL has ventured into trading of yarn. The Company primarily trades in cotton combed hosiery yarn, a type of yarn which the Company plans to manufacture in its own premises post the completion of capex.

Acuite believes that SBTL's revenue will improve over the medium term considering the ongoing capex, change in composition of products and increase in demand of the products.

Weaknesses

> Working capital intensive nature of operations

SBTL's working capital operation are moderately intensive in nature as it is reflected by its gross current asset (GCA) days of around 94 days in FY2021 as against 148 days in FY2019. The improvement is mainly on account of higher turnover in FY2021 driven by opportunity based trade of cotton bales during the year. The inventory holding period has reduced to 27 days as on March 31, 2021 as against 59 days as on March 31, 2020. The debtor collection period stood at 30 days as on March 31, 2021 as against 43 days as on March 31, 2020. On the other hand the company's credit payment period stood at 22 days as on March 31, 2021 as against 44 days as on March 31, 2020. The average bank limit utilization stood high at around 92.10 percent for eight months ended January, 2022, while its peak utilization was at around 98.05 percent during the same period.

Acuite expects the working capital management to remain intensive over the medium term.

> Implementation risk

SBTL is currently undertaking a capital expenditure plan to expand its spinning capacity by 6671 MTPA and establish a 6545 MTPA knitting unit near its existing facilities in Mohali, Nagpur. SBTL currently has three manufacturing units located with total installed manufacturing capacity of 16,540 MTPA. The total project cost is estimated at Rs.203.73 Cr to be funded by debt of Rs.141.88 Cr and promoter contribution of Rs.61.85 Cr. The equity contribution for the project, which was envisaged to be met fully by infusion of additional funds by the promoters, will now be partly met through internal accruals. Further, a significant portion of the equity contribution now is dependent on timely monetization of land parcel. The capex is expected to be completed by end of FY2023 and commence production from April, 2023 onwards. As on April, 2022 the Company has incurred a total cost ~Rs.20.00 on the project. The capex is currently at a nascent stage with regulatory approvals awaited. However, the Company has received sanction for its debt requirement on the project. The Company plans to start the knitting capacity in phased manner with 5 machines in March 22, 20 machines in July 22 and 19 machines in December 22. However, as on April, 2022 the vendor finalisation for plant and machinery is under process.

Acuite believes that as the plan is currently at an initial stage, risk of approval and time

delays in its implementation prevails. Thus, timely completion of the project will be a key monitorable.

> **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. SBTL's operating margins stood at 5.49 percent in FY2021 as against 7.85 percent in FY2020. The decline in margins is mainly on account of higher proportion of low margin generating trade of cotton bales during the year. The PAT margins improved to 1.66 percent in FY2021 as against 0.85 percent in FY2020. In 10MFY2022, SBTL's operating margins stood at 7.86 percent and PAT margins at 3.31 percent.

Rating Sensitivities

- > Delays in implementation of ongoing capex plan
- > Improvement in scale of operations and profitability while maintaining its capital structure
- > Elongation in the working capital cycle, leading to increase in reliance on working capital borrowings

Material covenants

None

Liquidity Position: Stretched

The company has stretched liquidity position marked by moderate net cash accruals to its maturing debt obligations and change in management's stance to fund its ongoing capital expenditure project partly by internal accruals. The company generated cash accruals of Rs.21.87 Cr in FY2021 and 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.23.00 Cr to Rs.30.00 Cr during 2022-23 against repayment obligations of around Rs.17-21 Cr during the same period. The company's working capital efficiency improved in FY2021 marked by the gross current asset (GCA) days of 94 days for the period as against 148 days in FY2020. The improvement in GCA days was mainly on account of higher turnover in FY2021 driven by opportunity based trade of cotton bales during the year. The average bank limit utilization stood at around 92.10 per cent for eight months ended January, 2022. The company maintains unencumbered cash and bank balances of Rs.0.58 Cr as on 31 March 2021. The current ratio of the company has improved to 1.52 times as on March 31 2021 from 1.23 times as on March 31, 2020. Acuité believes with phased implementation of ongoing capex, the working capital requirement of SBTL will increase. Furthermore, the management's plan to utilise a part of its internal accruals towards the capex, would put additional pressure on company's cash flows. Thus, the liquidity of the company is likely to remain stretched over the medium term considering the moderate cash accruals against debt repayment obligations, working capital intensive nature of operations of SBTL and ongoing capital expenditure project.

Outlook: Negative

Acuité believes that the company will maintain a 'Negative' outlook over the medium term on account of stress on liquidity position of the Company driven by the funding requirements of ongoing capital expenditure project of SBTL. The outlook may be revised to 'Stable', if the company showcases timely execution of its capex project plans without significant liquidity stress on the cash flow requirements of its existing operations. Conversely, the rating may be downgraded, if there is delay in execution of the capex project and elongation of working capital cycle, causing further stress on liquidity position of the Company.

Key Financials

Particulars	Unit	FY 21 (Actual)	FY 20 (Actual)
Operating Income	Rs. Cr.	676.67	367.42
PAT	Rs. Cr.	11.23	3.12
PAT Margin	(%)	1.66	0.85
Total Debt/Tangible Net Worth	Times	0.94	1.12
PBDIT/Interest	Times	3.19	2.90

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-52.htm>
- Manufacturing Entities: <https://www.acuite.in/view-rating-criteria-59.htm>
- Application Of 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

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
01 Apr 2022	Term Loan	Long Term	20.00	ACUITE A- Stable (Reaffirmed)
	Proposed Bank Facility	Long Term	144.34	ACUITE A- Stable (Reaffirmed)
	Warehouse Receipt Financing	Long Term	8.00	ACUITE A- Stable (Reaffirmed)
	Term Loan	Long Term	23.52	ACUITE A- Stable (Reaffirmed)
	Cash Credit	Long Term	20.00	ACUITE A- Stable (Reaffirmed)
	Warehouse Receipt Financing	Long Term	20.00	ACUITE A- (Withdrawn)
	Warehouse Receipt Financing	Long Term	20.00	ACUITE A- Stable (Reaffirmed)
	Term Loan	Long Term	15.00	ACUITE A- Stable (Reaffirmed)
	Cash Credit	Long Term	30.00	ACUITE A- Stable (Reaffirmed)
	Term Loan	Long Term	6.26	ACUITE A- Stable (Reaffirmed)
	Bank Guarantee	Short Term	7.00	ACUITE A2+ (Reaffirmed)
	Term Loan	Long Term	5.88	ACUITE A- Stable (Reaffirmed)
	Term Loan	Long Term	7.82	ACUITE A- Stable (Reaffirmed)
	Proposed Bank Facility	Long Term	26.27	ACUITE A- Stable (Reaffirmed)

08 Feb 2021	Term Loan	Long Term	5.00	ACUITE A- Stable (Assigned)
	Bank Guarantee	Short Term	10.00	ACUITE A2+ (Assigned)
	Term Loan	Long Term	29.99	ACUITE A- Stable (Reaffirmed)
	Cash Credit	Long Term	50.00	ACUITE A- Stable (Reaffirmed)
	Standby Line of Credit	Long Term	6.00	ACUITE A- Stable (Reaffirmed)
	Warehouse Receipt Financing	Long Term	20.00	ACUITE A- Stable (Reaffirmed)
	Term Loan	Long Term	7.52	ACUITE A- Stable (Reaffirmed)
06 Jan 2020	Working Capital Demand Loan	Short Term	20.00	ACUITE A2+ (Reaffirmed)
	Standby Line of Credit	Long Term	6.00	ACUITE A- Stable (Reaffirmed)
	Cash Credit	Long Term	50.00	ACUITE A- Stable (Reaffirmed)
	Bank Guarantee	Short Term	10.00	ACUITE A2+ (Reaffirmed)
	Term Loan	Long Term	9.00	ACUITE A- Stable (Reaffirmed)
		Long		ACUITE A- Stable (Reaffirmed)
	Term Loan	Term	36.00	
	Proposed Bank Facility	Long Term	22.10	ACUITE A- Stable (Reaffirmed)
	Term Loan	Long Term	9.50	ACUITE A- Stable (Reaffirmed)
15 Oct 2018	Proposed Bank Facility	Long Term	4.49	ACUITE A- Stable (Assigned)
	Standby Line of Credit	Long Term	6.00	ACUITE A- Stable (Assigned)
	Bank Guarantee	Short Term	10.00	ACUITE A2+ (Assigned)
	Term Loan	Long Term	14.28	ACUITE A- Stable (Assigned)
	Term Loan	Long Term	45.14	ACUITE A- Stable (Assigned)
	Short Term Loan	Short Term	20.00	ACUITE A2+ (Assigned)
	Cash Credit	Long Term	50.00	ACUITE A- Stable (Assigned)
	Term Loan	Long Term	12.69	ACUITE A- Stable (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
State Bank of India	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	7.00	ACUITE A2+ Reaffirmed
State Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	30.00	ACUITE A- Negative Reaffirmed Stable to Negative
HDFC Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	20.00	ACUITE A- Negative Reaffirmed Stable to Negative
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	144.34	ACUITE A- Negative Reaffirmed Stable to Negative
State Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	20.00	ACUITE A- Negative Reaffirmed Stable to Negative
State Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	23.52	ACUITE A- Negative Reaffirmed Stable to Negative
State Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	6.26	ACUITE A- Negative Reaffirmed Stable to Negative
							ACUITE A-

State Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	5.88	Negative Reaffirmed Stable to Negative
HDFC Bank Ltd	Not Applicable	Term Loan	Not available	Not available	Not available	15.00	ACUITE A- Negative Reaffirmed Stable to Negative
Union Bank of India	Not Applicable	Warehouse Receipt Financing	Not Applicable	Not Applicable	Not Applicable	20.00	ACUITE A- Reaffirmed & Withdrawn
HDFC Bank Ltd	Not Applicable	Warehouse Receipt Financing	Not Applicable	Not Applicable	Not Applicable	20.00	ACUITE A- Negative Reaffirmed Stable to Negative
TIRUPATI URBAN CO-OPERATIVE BANK LTD	Not Applicable	Warehouse Receipt Financing	Not Applicable	Not Applicable	Not Applicable	8.00	ACUITE A- Negative Reaffirmed Stable to Negative

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About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI) for Bank Loan Ratings under BASEL-II norms in the year 2012. Acuité has assigned ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

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