

Press Release

Bhuvaneswari Cotspin India Private Limited

May 07, 2021

Rating Upgraded and Assigned



Total Bank Facilities Rated*	Rs. 62.00 Cr. (Reduced from 73.00)
Long Term Rating	ACUITE BBB/Outlook: Stable (Upgraded from ACUITE BBB-/Stable and Assigned)
Short Term Rating	ACUITE A3+ (Upgraded from ACUITE A3)

* Refer Annexure for details

Rating Rationale

Acuite has upgraded the long-term rating to '**ACUITE BBB**' (read as **ACUITE triple B**) from '**ACUITE BBB-**' (read as **ACUITE triple B minus**) and the short-term rating to '**ACUITE A3+**' (read as **ACUITE A three plus**) from '**ACUITE A3**' (read as **ACUITE A three**) on the Rs. 54.50 crore bank facilities. Further, Acuite has assigned the long-term rating of '**ACUITE BBB**' (read as **ACUITE triple B**) on the Rs. 7.50 crore bank facilities. The total rated bank facilities stood at Rs. 62.00 crore (reduced from Rs.73.00 crore) for Bhuvaneswari Cotspin India Private Limited (BCPL). The outlook is '**Stable**'.

The upgrade in the ratings factor in the stable business risk profile marked by continuous improvement in PBDIT and ROCE since FY2018. The PBDIT stood improved at Rs. 27.90 crores in FY2020 as against Rs.17.26 crores in FY2019 and Rs. 16.25 crores in FY2018. Also, the operating margins have improved to 12.71 percent in FY2020 as against 9.29 percent in FY2019. Further, Return on Capital Employed (ROCE) also stood improved at 14.63 per cent in FY2020 as against 9.74 percent in FY2019, well supported by improvement in net cash accruals and liquidity levels. The ratings also draw comfort from improvement in coverage indicators and comfortable debt protection metrics. Further, Acuite expects improvement in scale of operations and operating margins on account of efforts made by management to reduce power cost by installation of solar plant of 4.20 MW for captive consumption.

BCPL is a Tamil Nadu based private limited company incorporated in 2003. The company is engaged in manufacturing of cotton and blended yarn and fabric. The company is promoted by Mr. Loganathan. The company is also supported by second generation, Mr. Paramesh Kumar and Mr. Subramaniam. BCPL caters to various segments of the textile industry.

Analytical Approach

Acuite has taken a standalone view of the business and financial risk profile of BCPL to arrive at the rating.

Key Rating Drivers

Strengths

• Established track record and experienced promoters

BCPL has established track record of over a decade since 2003. The company is promoted by Mr. Loganathan and his sons Mr. Paramesh Kumar and Mr. Subramaniam. The company promoters have over a decade experience in the industry. BCPL has been able to establish longstanding relationship with existing customers and suppliers through this company and its other group companies such as Parvathy Dyeing and Bhuvaneswari Tex. Their established presence in textile industry has helped the company to develop healthy relationship with its customers in getting recurring orders and regular flow of raw materials at better price from its suppliers.

The operating income of the company stood at Rs. 219.62 crores in FY2020 as against Rs. 185.74 crores in

FY2019. However, BCPL has achieved revenue of Rs. 215.62 crores in FY2021 (Provisional). The decline in sales is due to lockdown in Q1FY2021 and logistical challenges faced during the pandemic. The PBDIT margins have improved to 12.71 percent in FY2020 as against 9.29 percent in FY2019. The margins have improved due to higher dyeing of fabrics was undertaken in last two years contributing 55% to 70%, rather than focusing on only yarn. Also, PAT margins stood improved at 3.22 percent in FY2020 as against 2.39 percent in FY2019. Acuite believes that BCPL will continue to benefit from its experienced management and established relationships with customers and suppliers.

• **Healthy financial risk profile**

The company has healthy financial risk profile marked by moderate net worth, comfortable coverage indicators and debt protection metrics. The net worth of the company stood improved at Rs. 58.08 crore as on March 31, 2020 as against Rs. 50.93 crore as on March 31, 2019. The increase in net worth is due to accretion of profits. The net worth includes unsecured loans of Rs. 3.01 crores as on March 31, 2020 as against Rs 2.92 crores as on March 31, 2019. The gearing (debt-to-equity) of the company stood at 1.01 times as in March 31, 2020 as against 1.34 times as on March 31, 2019. The total debt of Rs. 58.49 crore as on March 31, 2020 mainly comprises of Rs.29.87 crore of long term debt and Rs. 28.62 crore of short term debt. Interest Coverage Ratio (ICR) stood at 3.40 times for FY2020 as against 2.90 times for FY2019. DSCR stood at 1.48 times for FY2020 as against 1.33 times for FY2019. Further, TOL/TNW (Total outside Liabilities/Tangible Net worth) ratio stood at 1.28 times as on March 31, 2020 as against 1.49 times as on March 31, 2019. Debt-EBITDA stood at 2.12 times for FY2020 as against 3.90 times for FY2019. Acuite believes that the financial risk profile of BCPL is expected to further improve on account of improvement in profitability and absence of any major debt-funded capex over the medium term.

Weaknesses

• **Moderately working capital intensive nature of operations**

The company has moderate working capital operations marked by Gross Current Asset (GCA) days of 140 days for FY2020 as against 166 days for FY2019. The inventory holding period improved to 16 days for FY2020 as against 53 days for FY2019. The debtor days have significantly increased at 115 days for FY2020 as against 89 days for FY2019 due to slower collections from customer on account of nationwide lockdown imposed in March 2020. The company gets credit of 30 to 45 days from its suppliers. The average working capital limits utilisation remained at 75.00 percent for last six months ending March 2021.

• **Highly fragmented textile industry and volatility of raw materials prices**

The Indian textile industry is highly fragmented and competitive marked by presence of large number of organised and unorganised players. This restricts pricing flexibility and bargaining power with its customers. The margins are fluctuating due to volatility in pricing of raw materials i.e. polyester which is dependent on crude oil prices. However, the company's long established presence in the industry and its ability to pass on volatility in raw material to its customers reduces the risk to a certain extent.

Rating Sensitivities

- Decline in revenues and margins
- Healthy financial risk profile and comfortable liquidity profile
- Elongation in working capital cycle and higher than expected debt funded capital expenditure

Liquidity Position: Adequate

Liquidity profile of BCPL is adequate as reflected by sufficient net cash accruals against its maturing debt obligations. The company generated cash accruals in the range of Rs.11.00-Rs.17.90 crore during the last three years through FY2018-20, while it's maturing debt obligations were in the range of Rs.6.80-Rs.11.00 crore over the same period. The average bank limit utilization stood at 75.00 percent for the past six months ended March 2021. The company maintained unencumbered cash and bank balances of Rs.0.08 crore as on March 31, 2020. The current ratio of the company stands modest at 1.48 times as on March 31, 2020. Acuite believes that the liquidity of the company is likely to remain adequate over the medium term on account of adequate cash accrual against debt repayments.

Outlook: Stable

Acuite believes BCPL will maintain a stable business risk profile over the medium term. The company will continue to benefit from its experienced management. The outlook may be revised to 'Positive' incase the company registers healthy growth in revenues while achieving sustained improvement in operating margins, capital structure and working capital management. Conversely, the outlook may be revised to 'Negative' in case of decline in the company's revenues or profit margins, or in case of deterioration in the company's financial risk profile and liquidity position.

About the Rated Entity - Key Financials

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	219.62	185.74
PAT	Rs. Cr.	7.06	4.44
PAT Margin	(%)	3.22	2.39
Total Debt/Tangible Net Worth	Times	1.01	1.34
PBDIT/Interest	Times	3.40	2.90

Status of non-cooperation with other CRA

None

Any other information

Not Applicable

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
19-Mar-2020	Cash Credit	Long Term	22.00*	ACUITE BBB-/ Stable (Reaffirmed)
	Overdraft	Long Term	18.00#	ACUITE BBB-/ Stable (Reaffirmed)
	Term Loan	Long Term	13.00	ACUITE BBB-/ Stable (Reaffirmed)
	Bank guarantee	Short Term	5.00	ACUITE A3 (Reaffirmed)
	Proposed Long Term Bank Facility	Long Term	12.00	ACUITE BBB-/Stable (Reaffirmed)
	Proposed Long Term Bank Facility	Long Term	3.00	ACUITE BBB-/Stable (Reaffirmed)
	Cash Credit	Long Term	22.00*	ACUITE BBB- / Stable (Assigned)
	Bank guarantee	Short Term	5.00	ACUITE A3 (Assigned)

10-Jan-2019	Overdraft	Long Term	18.00	ACUITE BBB- / Stable (Assigned)
	Proposed Long Term Bank Facility	Long Term	25.00	ACUITE BBB- / Stable (Assigned)
	Proposed Long Term Bank Facility	Long Term	3.00	ACUITE BBB- / Stable (Assigned)
	Cash Credit	Long Term	22.00*	ACUITE BBB- / Stable (Assigned)

* ILC/FLC/Buyers Credit Rs. 22.00 crore interchangeable sub-limit. WHRL limits of Rs.10.00 crores.

#ILC/FLC Rs. 11.00 crore interchangeable sub-limits.

*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	17.00* (reduced from 22.00)	ACUITE BBB/Stable (Upgraded)
Overdraft	Not Applicable	Not Applicable	Not Applicable	13.00# (reduced from 22.00)	ACUITE BBB/Stable (Upgraded)
Term Loan I	Mar - 2019	Not Available	Feb -2026	11.70	ACUITE BBB/Stable (Upgraded)
Term Loan II	Jul-2016	Not Available	Jun-2022	3.75	ACUITE BBB/Stable (Upgraded)
Bank guarantee	Not Applicable	Not Applicable	Not Applicable	0.65	ACUITE A3+ (Upgraded)
Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	4.05	ACUITE BBB/Stable (Upgraded)
Term Loan	Sep-2016	Not Available	Aug-2023	4.35	ACUITE BBB/Stable (Upgraded)
WCTL (EGCL)	Feb-2021	Not Applicable	May -2024	7.50	ACUITE BBB/Stable (Assigned)

*ILC/FLC/Buyers Credit Rs. 17.00 crores and WCDL limits of Rs.10.00 crores interchangeable sub-limit.

#ILC/FLC Rs. 9.00 crore interchangeable sub-limits.

Contacts

Analytical	Rating Desk
Aditya Gupta Vice President Tel: 022-49294041 aditya.gupta@acuite.in Rupesh Patel Senior Analyst - Rating Operations Tel: 022-49294044 rupesh.patel@acuite.in	Varsha Bist Senior Manager - Rating Desk Tel: 022-49294011 rating.desk@acuite.in

About Acuite Ratings & Research:

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