

Press Release

Shree Ram Twistex Private Limited

April 01, 2021

Rating Assigned



Total Bank Facilities Rated*	Rs. 58.28 Cr (Enhanced from Rs. 20.00 Cr)
Long Term Rating	ACUITE BBB-/Outlook: Stable (Reaffirmed)
Short Term Rating	ACUITE A3 (Assigned)

* Refer Annexure for details

Rating Rationale

Acuite has reaffirmed the long term rating of '**ACUITE BBB-**' (read as **ACUITE triple B minus**) and assigned short term rating of '**ACUITE A3**' (read as **ACUITE A three**) to the Rs. 58.28 crore (enhanced from Rs. 20 crore) bank facilities of Shree Ram Twistex Private Limited. The outlook is '**Stable**'

About the Company

Shree Ram Twistex Private Limited was incorporated in 2013 by promoters Mr. B B Ramani, Mr. Kothari, Mr. Hirani, Mr. Tilala and Mr. J V Ramani. The company began its commercial operations in 2016. The company is based out of Gujarat and is in the line of spinning cotton and manufacturing cotton yarn in the count range of 30 to 60, used in products such as denim and shirts.

Analytical Approach

Acuite has considered the standalone business and financial risk profile of Shree Ram Twistex Private Limited to arrive at the rating.

Key Rating Drivers

Strengths

- **Established experienced entrepreneurial management, strategic location of the spinning facility and established relationships with its clientele**

The company is being managed by experienced directors and promoters. Collectively, they have rich experience across various industries, including cotton ginning and spinning, ceramics, civil and mechanical construction and are instrumental in setting up and developing the company. The company has a team of experienced and capable professionals, having over a decade of experience in the segment, to look after the overall management. Company vintage has enabled it to forge healthy relationships with its customers and suppliers. The experience of promoters continues to help the company to improve its product profile and client base. The top five clients contribute to around 38% in FY2020 of the total sales indicating a moderately concentrated client base. Moreover, strategic location of the plant at Gondal, near Rajkot, Gujarat, a cotton growing belt, offers access to quality raw material at competitive rates, and skilled manpower.

- **Stable financial performance albeit moderation in profit margins**

The company's total operating income has witnessed a steady increase at a CAGR of ~11% in the three years ended FY20. The company has reported an increase in revenue in FY2020 at Rs. 108.81 Cr as against Rs. 105.30 Cr in FY2019 and Rs. 87.94 Cr in FY18 on the back of steady and increasing order flow given promoters' strong relationships with their customers. SRTPL has achieved continuous growth over the past three years, however, has witnessed a declining trend in EBITDA margins. The EBITDA margins stood at 9.86% in FY2020 (FY19: 10.28%, FY18: 11.93%) on the back of intense competition and fluctuation in raw material prices. Further, the employee cost has also increased during the aforesaid period resulting in impacting the profit margins. However, the company's performance was impacted during the IQFY21

due to nationwide lockdown arising out of Covid-19 pandemic. The company's revenue is estimated at Rs. 69.38 Cr, EBITDA margin at 9.83% and interest coverage ratio (ICR) at 3.53 times for 9MFY21. The overall performance of the company is expected to remain stable in FY21.

Further, the company is undertaking capex expenditure to augment its existing manufacturing capacity to ~27,000 spindles. The project is in its final stage of completion and the company expects to begin commercial operations from June 2021. The project is funded via promoter's contribution of Rs.4.00 Cr, bank loans of Rs.19.5 Cr and unsecured loans by directors and relatives of Rs.7.00 Cr.

• **Improvement in the capital structure and moderate debt protection parameters**

SRTPL has witnessed gradual improvement in its capital structure over the last three account closing dates backed by scheduled repayment of term debt obligations and accretion of profit to net worth. The debt equity ratio remained moderate and improved to 1.16 times as on March 31, 2020 from 1.62 times as on March 31, 2019 and 1.91 times as on March 31, 2018 and the overall gearing continued to remain moderate and improved to 0.78 times as on March 31, 2020 from 1.19 times as on March 31, 2019 and 1.51 times as on March 31, 2018. Total indebtedness as reflected by the TOL/TNW also remained moderate at 1.27 times as on March 31, 2020 from 1.95 times as on March 31, 2019 and 2.00 times as on March 31, 2018. The interest coverage ratio stood comfortable at 3.62 times as on March 31, 2020.

Weaknesses

• **Moderate working capital cycle**

SRTPL's working capital management is moderate marked by moderate gross current assets (GCA) days of 89 as on March 31, 2020 as against 117 days as on March 31, 2019. Cotton is generally procured during the season beginning from October to March to sustain the raw material requirement for upcoming 5-6 months until the start of the next season. Inventory days stood at 29 days as on March 31, 2020 as against 43 days as on March 31, 2019. Debtor days stood at 47 days and 43 days as on March 31, 2020 and as on March 31, 2019 respectively. The above are offset by creditor days of 3 days as on March 31, 2020 and 31 days as on March 31, 2019.

• **Highly competitive and working capital-intensive nature of industry**

The Indian textile industry is highly fragmented and competitive marked by presence of large number of organized and unorganized players. This restricts the pricing flexibility and bargaining power with its customers. Further, the operating margins are fluctuating due to the volatility in pricing of raw materials. However, the promoters' long-established presence in the field shall enable them to pass the volatility in raw material process to its customers, further reducing the risk to a certain extent.

• **Susceptible to changes in input prices**

The margins are highly susceptible to changes in the prices of cotton. The price of cotton is fixed by the government through the Minimum Support Price (MSP). However, the purchase price depends on the prevailing demand-supply situation which restricts bargaining power with suppliers as well. Any adverse movement of cotton prices further impacts profitability.

Rating Sensitivities

- Improving scale of operations while maintaining profitability.
- Any further deterioration in working capital management leading to deterioration in financial risk profile and liquidity

Material Covenants: None

Liquidity Position: Adequate

SRTPL has adequate liquidity marked by moderate net cash accruals as compared to its maturing debt obligations, moderately utilized bank limits and moderate current ratio. SRTPL generated net cash accruals of Rs.7.95-12.86 Cr during the last three years through FY2018-20 vis-à-vis maturing debt obligations of around Rs.5.00 Cr over the same period. The cash accruals are estimated to be around Rs.5.95-7.67 Cr. during FY2021-23 vis-à-vis repayment obligations in the range of Rs.5.00 Cr. to Rs.6.15 Cr. The current ratio stood moderate at 3.09 times as on March 31, 2020. The working capital limits of the firm remained 50.16% utilised for the last twelve months ended in January, 2021. Acuite believes that the

liquidity of the firm is likely to remain adequate over the medium term.

Outlook: Stable

Acuite believes that SRTPL will maintain a 'Stable' outlook over the medium term backed by its experienced management and establishing client base and supplier relationship. The outlook may be revised to 'Positive' in case of better-than-expected revenue and profitability margin leading to improvement in financial risk profile. Conversely, the outlook may be revised to 'Negative' in case of lower-than-expected revenue or profitability, or any further stretch in its working capital management leading to deterioration in its financial risk profile and liquidity position.

About the Rated Entity - Key Financials

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	108.81	105.30
PAT	Rs. Cr.	3.22	2.53
PAT Margin	(%)	2.96	2.40
Total Debt/Tangible Net Worth	Times	1.16	1.62
PBDIT/Interest	Times	3.62	3.30

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>
- 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
24-Mar-2021	Term Loan	Long Term	19.24	ACUITE BBB-/Stable (Assigned)
	Proposed Bank Facility	Long Term	0.50	ACUITE BBB-/Stable (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
Term Loan	Not Available	10.65%	December, 2027	19.50	ACUITE BBB-/Stable (Reaffirmed)
Term Loan	Not Available	10.65%	January, 2025	19.24	ACUITE BBB-/Stable (Assigned)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	0.50	ACUITE BBB-/Stable (Reaffirmed)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE BBB-/Stable (Assigned)
WCDL	Not	Not	Not	0.67	ACUITE BBB-/Stable (Assigned)

	Available	Available	Available		
WCTL	Not Available	Not Available	Not Available	5.37	ACUITE BBB-/Stable (Assigned)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	3.00	ACUITE A3 (Assigned)

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About Acuité Ratings & Research:

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