Press Release
Sri Salasar Balaji Textiles Private Limited
March 20, 2024
Rating Assigned and Downgraded

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	6.30	ACUITE BB+ | Stable | Assigned	-
Bank Loan Ratings	74.03	ACUITE BB+ | Stable | Downgraded	-
Bank Loan Ratings	1.00	-	ACUITE A4+ | Downgraded
Total Outstanding Quantum (Rs. Cr)	81.33	-	-

Rating Rationale
Acuité has downgraded its long-term rating to **'ACUITE BB+' (read as ACUITE Double B Plus)** from **'ACUITE BBB-' (read as ACUITE triple B Minus)** and short term rating to **'ACUITE A4+' (read as ACUITE A Four Plus)** from **'ACUITE A3' (read as ACUITE A Three)** on the Rs. 75.03 Cr. bank facilities of the Sri Salasar Balaji Textiles Private Limited (SSBTPL).The outlook is **'Stable'.**
Acuité has also assigned its long-term rating of **'ACUITE BB+' (read as ACUITE double B Plus)** on the Rs. 6.30 Cr. bank facilities of the Sri Salasar Balaji Textiles Private Limited (SSBTPL). The outlook is **'Stable'.**

Rationale for rating
The downgrade in the rating takes into account lower-than-expected performance of Salasar Balaji Group primarily due to volatility in the price realizations from the period 2021-2023. The Group generated revenue of Rs.561.17 crore in FY2023 as against Rs.1300.13 crore in FY2022. Further, the group's PAT deteriorated to Rs. (3.32) Cr. in FY2023 as against Rs.11.01 Crore in FY2022 primarily due to high interest and depreciation costs. Also, the downgrade in the rating considers stretched liquidity, vulnerability of margins due to fluctuating raw material and yarn prices, average financial risk profile due to high Debt-EBITDA of 7.54 times in FY2023 as against 3.58 times in FY2022. However, the rating continues to draw comfort from established track record operations, experienced management and location-specific advantage by being in proximity to the cotton growing areas of Mahabubnagar (Telangana).

About Company
Incorporated in November 2017, Sri Salasar Balaji Textiles Private Limited (SSBTPL) is engaged in manufacturing of cotton yarn. Mr.Dhiraj Kumar Khetan is the promoter of the company. The plant is located in Adilabad, Telangana with an installed capacity of 48,000 spindles. SSBTPL started commercial operations July, 2019.

About the Group
Sri Salasar Balaji Agro Tech Private Limited
Incorporated in 2003, Sri Salasar Balaji Agro Tech Private Limited (SSBATPL) is a Hyderabadbased company engaged in the business of FP Bales (full pressed bales) and cotton yarn. Mr. Dhiraj Kumar Khetan and his family members are the promoters of the

company.

Unsupported Rating
Not Applicable

Analytical Approach

Extent of Consolidation
• Full Consolidation

Rationale for Consolidation or Parent / Group / Govt. Support
Acuité has considered consolidated financials of Sri Salasar Balaji Agrotech Private Limited (SSBATPL), its wholly owned subsidiary - Sri Salasar Balaji Textiles Private Limited (SSBTPL) together referred to as the Sri Salasar Balaji Group. The consolidation is on account of strong operational, financial and managerial linkages.

Key Rating Drivers

Strengths
Extensive experience of promoters and long operational track record of operations
Sri Salasar Balaji Textiles Private Limited (SSBTPL) belongs to Sri Salasar Balaji Group, which has presence in the cotton textile industry for more than three decades. Mr. Dhiraj (Managing director) is actively engaged in managing the day to day operations of the company along with adequate support from other family members who also have been associated with the cotton Industry. The manufacturing facility of the company is strategically located in Mahboobnagar district, which is a hub for horticultural. Raw cotton being the major raw material is available abundantly in close proximity of the unit. Further, the promoters have long and established relationship with the farmers as well as traders which augurs well for the company. The promoters have established long relationships with various stakeholders across the value chain, aiding in repeat orders from key customers.
Acuité believes that Sri Salasar Balaji group will continue to benefit from the extensive experience of its promoters, and established relationships with clients will improve its business risk profile over the medium term.

Weaknesses
Deterioration in the Operating Performance
The group recorded an revenue of Rs.561.17 Cr. in FY2023 as against Rs.1300.33 Cr. in FY2022 on account of volatility seen in the price realization. Eventhough the group had reported deterioration in the operating income, the EBITDA margins shown an improvement which stood at 2.13 percent in FY2023 as against 1.95 percent in FY2022 on account of volatility in raw material costs. The group has faced net losses of (0.59) percent in FY2023 as against 0.85 percent in FY2022 on account of high interest and depreciation costs. However, the EBITDA and PAT margins improved in 10MFY2024 which stood at 3.90 percent and 0.75 percent respectively. Going forward, the group's EBITDA margins to sustain at 3%-5% in the medium term, considering a likely moderation in raw material costs with improved realisations in cotton yarn segment.
Acuité believes that improvement in Group's scale of operations along with profitability margins will be a key rating sensitivity.

Moderately Intensive Working Capital operations
The working capital management of the group is moderately intensive marked by GCA days of 105 days in FY2023 as against 53 days in FY2022. The inventory days stood at 43 days in FY2023 as against 20 days in FY2022. Generally, the group has an inventory holding period of 30-45 days. The debtor days stood at 44 days in FY2023 as against 25 days in FY2022. The group generally deals on a 100% cash basis but sometimes it gives credit period of 15-20 days to its customers. Creditor days stood at 25 days in FY2023 as against 23 days in FY2022. The group generally allows a credit period of 20-30 days from its suppliers. The average utilization of the working capital facilities stood at ~80% of the sanctioned amount for past 10 months ended December 2023.
Acuité believes that maintaining efficient working capital management will be a key sensitivity looking at the industry and its operations.

Average Financial Risk Profile
The financial risk profile of the group stood average marked by modest net worth, moderate gearing, and average debt protection metrics. The tangible net worth of the group stood at Rs.55.95 crore as on 31 March 2023 as against Rs.68.64 crore as on 31 March, 2022. The total debt of the group stood at Rs.149.36 crore includes Rs.40.15 crore of long-term debt, Rs.10.03 crore of CPLTD, Rs.1.71 crore of Unsecured loans and Rs.97.46 crore of short-term debt as on 31 March, 2023. The gearing (debt-equity) stood at 2.67 times as on 31 March 2023 as compared to 1.87 times as on 31 March, 2022. Debt-EBITDA stood high at 7.54 times in FY2023 as against 3.58 times in FY2022. Interest Coverage Ratio stood at 1.43 times for FY2023 as against 2.34 times for FY2022. Debt Service Coverage Ratio (DSCR) stood at 0.75 times in FY2023 as against 1.46 times in FY2022. Total outside Liabilities/Total Net Worth (TOL/TNW) stood at 3.39 times as on 31 March, 2023 as against 3.21 times as on 31 March, 2022.

Highly competitive and fragmented industry
Cotton is a 'kharif crop', sowed in June and harvested in October. Therefore, the ginning activities also commence in October and last till March every year, making the business seasonal. Availability of cotton is highly dependent on monsoon. Cotton production, government interventions and fluctuations in global cotton output have resulted in sharp fluctuations in cotton prices in the past and impacted the operating margins of players. Sustenance of the operating margin amid the volatility in cotton price will remain a key sensitivity factor. Operating margins of Salasar Group have oscillated in the range of 1-3 percent over FY2022 and FY2023. Cotton, which is the main raw material required for ginning, is a seasonal crop and production of the same is highly dependent upon monsoon. Thus, inadequate rainfall may affect the availability of raw cotton in adverse weather conditions. The cotton industry is highly competitive with multiple players coupled with low entry barriers resulting in intense competition from both the organised as well as unorganised players.
Acuité believes that operating margins of the entire value chain - ginners and spinners continue to be exposed to the volatile raw material prices and impacts on profitability. Also, the low value-additive nature of the business results in thin profit margins for the group.

Rating Sensitivities

- Improvement in scale of operations while maintaining profitability margins
- Any large debt-funded capital expenditure, resulting in deterioration of financial risk profile.
- Any further deterioration in working capital management leading to deterioration in financials risk profile and liquidity

Liquidity Position
Stretched
The group's liquidity position is stretched, marked by inadequate net cash accruals against its maturity debt obligations. The group generated insufficient net cash accruals in the range of Rs.5.36-18.44 Crore from FY 2021- 2022 against its maturity repayment obligations in the range of Rs.10.03-Rs.11.81 crore in the same tenure. In addition, it is expected to generate sufficient cash accrual in the range of Rs.11.84-21.69 crores against the maturing repayment obligations of Rs.9.44-12.25 crore over the medium term. The working capital management of the group is moderately intensive marked by GCA days of 105 days in FY2023 as against 53 days in FY2022. The average utilization of the working capital facilities stood at ~80% of the sanctioned amount for past 10 months ended December 2023. The group maintains unencumbered cash and bank balances of Rs.1.98 crore as on March 31, 2023. The current ratio of the group stands at 1.09 times as on March 31, 2023 as against 1.23 times as on 31 March, 2022.
Acuité believes that though cash accruals are stretched, howbeit, managing the working capital efficient operations will remain a key rating sensitivity factor.

Outlook: Stable
Acuite believes that Sri Salasar Balaji group will continue to benefit over the medium term due to its "established market position and established relations with its customers. The outlook may be revised to "Positive", if the group demonstrates substantial and sustained growth in

its operating margins from the current levels while improving its capital structure through equity infusion. Conversely, the outlook may be revised to "Negative", if Group's generates lower-than-anticipated cash accruals, most likely as a result of sharp decline in operating margins, or further stretch in its working capital cycle, or larger-than expected debt-funded capex thereby impacting its financial risk profile, particularly its liquidity.

Other Factors affecting Rating
None

Key Financials

Particulars	Unit	FY 23 (Actual)	FY 22 (Actual)
Operating Income	Rs. Cr.	561.17	1300.33
PAT	Rs. Cr.	(3.32)	11.01
PAT Margin	(%)	(0.59)	0.85
Total Debt/Tangible Net Worth	Times	2.67	1.87
PBDIT/Interest	Times	1.43	2.34

Status of non-cooperation with previous CRA (if applicable)

Not Applicable

Any Other Information

From FY2023 onwards, only 2 companies have been taken into consideration i.e., **'Sri Salasar Balaji Agrotech Private Limited'** and **'Sri Salasar Balaji Textiles Private Limited'** as the group has winded up all the operations of Shyam Cotton Trading company and has not been taken into consideration from FY2023.

Applicable Criteria

• Application Of Financial Ratios And Adjustments: https://www.acuite.in/view-rating-criteria-53.htm
• Consolidation Of Companies: https://www.acuite.in/view-rating-criteria-60.htm
• Default Recognition: https://www.acuite.in/view-rating-criteria-52.htm
• Manufacturing Entities: https://www.acuite.in/view-rating-criteria-59.htm
• Trading Entitie: https://www.acuite.in/view-rating-criteria-61.htm

Note on Complexity Levels of the Rated Instrument

In order to inform the investors about complexity of instruments, Acuité has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite' s categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in.

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
17 Mar 2023	Bank Guarantee (BLR)	Short Term	1.00	ACUITE A3 (Reaffirmed)
	Cash Credit	Long Term	24.41	ACUITE BBB- | Stable (Assigned)
	Cash Credit	Long Term	15.59	ACUITE BBB- | Stable (Reaffirmed)
	Term Loan	Long Term	34.03	ACUITE BBB- | Stable (Reaffirmed)
24 Mar 2022	Bank Guarantee (BLR)	Short Term	1.00	ACUITE A3 (Assigned)
	Cash Credit	Long Term	10.00	ACUITE BBB- | Stable (Assigned)
	Term Loan	Long Term	35.62	ACUITE BBB- | Stable (Assigned)
	Term Loan	Long Term	4.00	ACUITE BBB- | Stable (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Karur Vysya Bank	Not avl. / Not appl.	Bank Guarantee (BLR)	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	1.00	ACUITE A4+ | Downgraded (from ACUITE A3)
Karur Vysya Bank	Not avl. / Not appl.	Cash Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	40.00	ACUITE BB+ | Stable | Downgraded (from ACUITE BBB-)
Not Applicable	Not avl. / Not appl.	Proposed Cash Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	0.57	ACUITE BB+ | Stable | Downgraded (from ACUITE BBB-)
Not Applicable	Not avl. / Not appl.	Proposed Cash Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	0.82	ACUITE BB+ | Stable | Assigned
Karur Vysya Bank	Not avl. / Not appl.	Term Loan	Not avl. / Not appl.	Not avl. / Not appl.	30 Jul 2028	Simple	27.86	ACUITE BB+ | Stable | Downgraded (from ACUITE BBB-)
Karur Vysya Bank	Not avl. / Not appl.	Working Capital Term Loan	Not avl. / Not appl.	Not avl. / Not appl.	05 Jan 2026	Simple	5.60	ACUITE BB+ | Stable | Downgraded (from ACUITE BBB-)
Karur Vysya Bank	Not avl. / Not appl.	Working Capital Term Loan	Not avl. / Not appl.	Not avl. / Not appl.	05 Dec 2027	Simple	5.48	ACUITE BB+ | Stable | Assigned

***Annexure 2 - List of Entities (applicable for Consolidation or Parent / Group / Govt. Support)**

Sri Salasar Balaji Agrotech Private Limited (SSBATPL)- wholly owned subsidiary

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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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