

## Press Release

### Shivkrupa Cotspin Private Limited

January 20, 2023



## Rating Assigned

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	116.00	ACUITE BBB-   Stable   Assigned	-
Total Outstanding Quantum (Rs. Cr)	116.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

## Rating Rationale

Acuite has assigned its long-term rating of **'ACUITE BBB-'** (read as **ACUITE triple B Minus**) on the Rs. 116.00 Cr bank facilities of Shivkrupa Cotspin Private Limited (SCPL). The outlook is **'Stable'**.

### Rationale for rating assigned

The rating assigned factors in the improved business risk profile of the company marked by healthy growth in performance during FY22. The revenues of the company witnessed growth of 57% YoY during the period on account of healthy demand in the industry. However, the profitability of the company was impacted marked by decline in operating profit margin majorly on account of increase in raw material prices. The rating also takes into account the established operations of the company in the cotton industry and the adequate liquidity. Furthermore, the company is in the process of expansion by methods of debt funded capital expenditure towards capacity expansion in FY23 and is expected to completed by FY24. SCPL is expected to capitalize on the increase in demand through on-going capex plans over the near to medium term. However, the rating is constrained due to moderate financial risk profile marked by high leverage ratios. Also, the large debt requirement for the on-going capex is expected to further impact the leverage metrics of the company in the near term. Further, the volatility in cotton prices is also likely to impact the input cost of the company, which in-turn impacts the operating margins.

### About the Company

Chopda, Maharashtra based Shivkrupa Cotspin Private Limited was incorporated in 2017. The Directors of the company are Mr. Sunil Mohanlal Agrawal, Mr. Ashish Mohanlal Agrawal, Mr. Ghansham Omkarlal Agrawal, Mr. Karan Ghanshyam Agrawal and Mr. Aditya Sunil Agrawal. The company is engaged in manufacturing of cotton yarn of varied count pattern.

### Analytical Approach

Acuite has considered the standalone business and financial risk profiles of SCPL to arrive at this rating.

### Key Rating Drivers

## **Strengths**

### **Established operations with experienced management**

SCPL was incorporated in 2017 and is engaged in the manufacturing of cotton yarn. The company is promoted by the Agrawal family who have more than two decades of experience in the textile industry. The top management is ably supported by a well-qualified and experienced team of second line of management. The company has integrated operations across the textile value chain and undertakes spinning of cotton. The company sells its products to manufacturers majorly across India and exports its product by methods of third party deemed exports. Furthermore, owing to the business relationships and dynamic strategies with high demand, the company reported revenue of Rs. 85.83 Cr. in FY22, as against, Rs. 54.57 Cr. in FY21. Furthermore, the company has reported revenues of Rs. 35.34 Cr. in H1-FY23. With high demand in the industry and company's plan of capacity expansion in the near term, the revenues are likely to continue in the near and medium term.

Acuité believes that the company will continue to derive benefit from its promoter's experience, its established presence and increasing scale of operations providing healthy revenue visibility in medium term.

### **Expansion Project**

SCPL has commenced capex for capacity expansion owing to growing demand. The project undertaken by the company to expand its installed capacity by approx. 167% is currently underway with approx. 60% of the civil construction being completed as on December 31, 2022. The company is majorly equipped with automated machinery which has also helped to mitigate the availability of manpower. The expansion is to increase the installed spindles from the existing 14,592 spindles to 36,480 spindles, an increase by 21,888 spindles. SCPL is procuring machinery from LMW, Coimbatore, and the expected delivery of the machinery is by Q1 of FY24. Further, the project cost is being funded by way of equity (25%) and debt (75%), wherein, the debt funding is in the form of term loan, for which, the company has received in-principle sanction from the bank. Furthermore, the company receives capital and revenue subsidies from the State Government under the various schemes, wherein, the capital subsidies are expected to be received by end of FY23. Additionally, the plant is located in Khandesh Region in the state of Maharashtra which is a hub for cotton cultivation and its ancillary industries, thus, awarding SCPL the advantage of raw material sourcing and eventual supply to multiple customers. The project cost for expansion is estimated at Rs. 106.47 crore and COD is estimated at November 2023. Also, the company along with its promoters is holding unencumbered liquid funds to the tune of approx. Rs. 30-35 crores, thus mitigating funding risk to a certain extent.

Acuité believes that with an ongoing growth in demand in the industry backed by regular orders from the customers, capex underway and the improvement in revenue growth, the business risk profile of the group is expected to improve over the medium term.

### **Working Capital Efficient Operations**

The Company's working capital operations are efficient with the improved GCA Days to 61 days as on March 31, 2022, which was 101 days as on March 31, 2021. Further, the low GCA days is majorly on account of low debtor days which remained Nil as on March 31, 2022 and March 31, 2021, whereas the creditor days stood at 2 days as on March 31, 2022 as against 1 days as on March 31, 2021. The company's payment terms for sales is on advance basis or immediate payment, thus ensuring nil debtors ageing. Inventory days stood at 68 days as on March 31, 2022 as against 115 days as on March 31, 2021.

## **Weaknesses**

### **Moderate Financial Risk Profile**

The financial risk profile of the company remained moderate marked by high leverage ratios and moderate debt protection matrices. Despite improvement, the leverage ratios remained stressed marked by high debt to equity ratio of 4.49 as on 31 March, 2022 as against 14.71 times same period last year. Furthermore, the Debt to EBITDA of the company stood at 2.62 times for FY22. The Total Outside Liabilities / Tangible Networth ratio also stood high at 4.79 as on 31 March, 2022. However, debt protection matrices remained moderate marked by the Interest Coverage Ratio (ICR) of 4.63 times and Debt Service Coverage Ratio (DSCR) of 2.21 for FY22. Further, the capital infusion during FY23 has recorded the networth of

the company at Rs. 18.09 Cr. (excluding profits) as on December 31, 2022.

Acuité believes that the financial risk profile is likely to remain moderate with high leverage ratios on account of ongoing high debt capex in the near term and will continue to remain a key monitorable going ahead.

### **Highly competitive industry & fluctuation in raw material prices impacting profitability**

The Company is operating in highly competitive and fragmented textile industry. It is exposed to intense competition from several players operating in the industry. SCPL's income is derived from manufacturing yarn which is vulnerable to the intense competitive pressures and the cyclical nature inherent in the domestic textile industry. SCPL's profitability margins are susceptible to fluctuations in the prices of major raw material i.e. Raw cotton. Cotton being a seasonal crop, the production of the same is highly dependent upon the monsoon. The operating profit margin declined to 15.65% in FY22 compared against 20.01% in FY21 owing to such price fluctuations. However, the operating profit margin improved to ~22% in H1-FY22 on account of decline in cotton prices during the period. Furthermore, any abrupt change in cotton prices due to supply demand scenario and government regulations of changes in Minimum Support Price (MSP) can lead to distortion of prices and affect the profitability of the company across the cotton value chain.

Acuité believes that the company's profitability margins will remain a key rating sensitivity as the same is susceptible of volatility in raw cotton prices, since the industry is highly commoditized.

### **Rating Sensitivities**

- Improving scale of operations while maintaining profitability
- Further deterioration in financial risk profile on account of large debt funded capex
- Delays in completion of on-going capex

### **Material covenants**

None

### **Liquidity Position**

#### **Adequate**

The company has adequate liquidity marked by adequate net cash accruals to its maturing debt obligations. The net cash accruals are expected to remain in range of Rs. 10.77 – Rs. 14.92 Cr. through FY23 - FY24, against its maturing debt obligations of Rs. 3.00 – 12.00 Cr. over the same period. Also the company generated net cash accruals of Rs. 10.20 Cr. in FY22 compared against debt obligations of Rs. 3.00 Cr. during the same period. The company maintains an unencumbered cash and bank balances of Rs. 0.04 Cr. as on March 31, 2022. Also, the company holds unencumbered liquid investments through the holdings of the company and the promoters to the tune of approx. Rs. 30-40 Cr. The current ratio of the group stood at 3.84 times as on March 31, 2022. The average bank limit utilization for group stood high at around 11.33 percent for the 6 months ended September 2022. The Company has availed COVID loans out of which one has been repaid and one has been availed in FY22.

ACUTE believes, liquidity position of the group to remain adequate over the medium term.

### **Outlook: Stable**

Acuité believes that SCPL will continue to benefit over the medium term from the promoter's experience and established track record in the aforementioned industry. The outlook may be revised to 'Positive' if the company achieves more than envisaged sales while improving its liquidity. Conversely, the outlook may be revised to 'Negative' if the company fails to achieve the expected revenue and profitability and the project commencement of capex is delayed.

### **Other Factors affecting Rating**

None

## Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	85.83	54.57
PAT	Rs. Cr.	5.26	1.32
PAT Margin	(%)	6.13	2.42
Total Debt/Tangible Net Worth	Times	4.49	14.71
PBDIT/Interest	Times	4.63	2.93

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

None

## Any other information

None

## Applicable Criteria

- Default Recognition :- <https://www.acuite.in/view-rating-criteria-52.htm>
- Entities In Manufacturing Sector:- <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

In order to inform the investors about complexity of instruments, Acuite 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](http://www.acuite.in).

## Rating History:

Not Applicable

## Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
State Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	3.00	ACUITE BBB-   Stable   Assigned
State Bank of India	Not Applicable	Covid Emergency Line.	Not Applicable	Not Applicable	Not Applicable	Simple	1.64	ACUITE BBB-   Stable   Assigned
State Bank of India	Not Applicable	Covid Emergency Line.	Not Applicable	Not Applicable	Not Applicable	Simple	5.00	ACUITE BBB-   Stable   Assigned
Not Applicable	Not Applicable	Proposed Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	9.00	ACUITE BBB-   Stable   Assigned
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Simple	0.26	ACUITE BBB-   Stable   Assigned

Not Applicable	Not Applicable	Proposed Long Term Loan	Not Applicable	Not Applicable	Not Applicable	Simple	79.85	ACUITE BBB-   Stable   Assigned
State Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	17.25	ACUITE BBB-   Stable   Assigned

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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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