



Press Release
SHRIRA JLA XMI DENIM LIMITED
February 28, 2024
Rating Assigned

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	63.00	ACUITE BBB- Stable Assigned	-
Bank Loan Ratings	2.00	-	ACUITE A3 Assigned
Total Outstanding Quantum (Rs. Cr)	65.00	-	-

Rating Rationale

Acuite has assigned its long-term rating of '**Acuite BBB-**' (read as **Acuite triple B minus**) and short-term rating of '**Acuite A3**' (read as **Acuite A three**) on the Rs. 65.00 Cr. bank facilities of Shrirajlaxmi Denim Limited (SDL). The outlook is '**Stable**'.

Rationale for rating assigned

The rating assigned considers the established track record of the company over the last decade along with its experienced management. The rating is further supported by healthy financial risk profile for the company marked by healthy gearing and moderate debt protection metrics with debt-equity stood at 0.7 times and Interest coverage ratio stood at 3.72 times as on 31st March 2023. However, these strengths are partly offset by the moderately intensive working capital operations for the company as marked by higher GCA days of 125 days in FY23. Further, it also factors in the business risk as faced by the company in terms of customer concentration, as more than 50 percent of the revenue is generated from top 4 customers and its profitability is also susceptible to volatility in raw material prices.

About the Company

Incorporated in December 2012, Shrirajlaxmi Denim Limited (SRL) is engaged in the manufacturing of denim fabric. The manufacturing facility of the company is located at Gujarat Eco Textile Park Limited at Palsana in Surat, Gujarat, equipped with an installed capacity of 2.16 crore meters per annum of dyeing & weaving. The corporate office of the company is also located at Gujarat Eco Textile Park Limited at Palsana in Surat, Gujarat. The current directors of the company are Mr. Laxmikant Sodhani, Mr. Bharat Sikchi, Mr. Shrikant Shah, Mr. Durgesh Banger, Mr. Ravi Sushil Rath and Mr. Ritesh Banger.

Unsupported Rating

Not Applicable

Analytical Approach

Acuite has considered the standalone business and financial risk profiles of Shrirajlaxmi Denim Limited to arrive at the rating.

Key Rating Drivers

Strengths

Established track record with professional and experienced management.

SDL has an established track record of operations dating back more than a decade. Over the years company has established a strong position in the denim fabric manufacturing

industry. The experience of the management is reflected in the growing operations of the company. The revenue of the company stood at Rs 231.11 crore in FY 2023 as compared to Rs 269.18 crore in FY 2022 and Rs 166.74 crore in FY 2021. Further, the company has achieved a revenue of Rs.141 crore till November 2023. SDL has a group company name Kanchan India Limited from which it derives an operational synergy for procuring raw materials.

Further the company has done a capex for installing a wind mill to save power cost. It is estimated to save around Rs.2-2.5 crore per year in power cost going ahead. The EBITDA margins of the company increased to 7.51 percent in FY23 as against 6.8 percent in FY22. However, the profit margins of the company stood low at 0.1 percent in FY23 as against 0.05 percent in FY22, this is mainly due to higher depreciation cost for the company.

Acuite believes that the industry experience and domain knowledge of the management are expected to support its business risk profile over the medium term.

Healthy Financial risk profile

The financial risk profile of the company stood healthy as marked by low gearing, moderate net worth and moderate debt protection metrics. Acuite has considered Rs.15 crore of USL as part of quasi equity on account of undertaking being given by SDL to the banker for subordination. The tangible net worth stood at Rs.69.73 crore as on 31 March 2023 as against Rs.69.5 crore as on 31 March, 2022. The capital structure of SDL stood comfortable with a gearing stood at 0.70 times as on March 31, 2023, as against 1.09 times as on March 31, 2022. Gearing improved on account of repayment of term loans coupled with decrease in working capital bank borrowings utilizations. However, the company has availed an additional term loan for the setting up of Windmill in the current financial year of Rs 18.71 crore. Total outside Liabilities/Total Net Worth (TOL/TNW) stood at 0.84 times as on 31 March, 2023 as against 1.29 times as on 31 March, 2022. Given the comfortable capital structure, the debt coverage indicators also stood comfortable with the debt/EBITDA and interest coverage ratio of 2.81 times and 3.72 times respectively in FY23 as against 4.11 times and 4.94 times respectively in FY22. Although the interest coverage deteriorated in FY23 over FY22 owing to a decline in the profitability, the same continues to remain comfortable, whereas the debt/EBITDA improved in FY23 over FY22 owing to decrease in debt levels as mentioned above. Further, Net Cash Accruals to Total Debt (NCA/TD) improved to 0.26 times for FY2023 as against 0.17 times for FY2022.

Acuite expects the financial risk profile of the company may continue to remain healthy on account of steady cash accruals against the repayment obligations.

Weaknesses

Moderately Intensive Working capital operations

The working capital operations of the company stood moderately intensive marked by GCA days of 125 days in FY23 as against 131 days in FY22. High GCA days are on account of other current assets of 13 crore consisting of receivables from government in the form of GST and subsidy. The collection period stood moderate at 72 days in FY23 as against 61 days in FY22 owing to a moderate credit period of over 60-75 days extended to the customers. The inventory holding also stood moderately elongated at 63 days in FY23 as against 55 days in FY22. On the other hand, the creditors' period stood moderate at 15 days in FY23 as against 17 days in FY22, owing to a moderate credit period of over 10-20 days extended by the suppliers to the company.

Acuite believes that the working capital operations of the company may continue to remain moderately intensive as long as other current assets of the company remains high relative to operating income.

Customer concentration risk and Susceptibility of profitability to volatility in raw material prices

The company is susceptible to customer concentration risk as more than 50 percent of the company's revenue was generated through sales to its top 4 customers. Further the contribution from the top ten customers stood at more than 75 percent in FY23. Any financial or business risk faced by any of its top customers could affect SDL negatively.

Further the company faces the risk from the volatility in raw material prices. The operation of cotton business is highly seasonal in nature. Cotton prices in the industry saw a huge spike from 60 thousand per candy in October 2021 to around 100 thousand per candy in April 2022.

This led to very volatile demand in the textile industry. However, from February 2023 the raw material prices have been stabilised and are hovering around 60 thousand per candy. Acuite believes the risk from the customer concentration and volatility in raw material prices will remain a key rating sensitivity for the company.

Rating Sensitivities

- Improvement in the scale of operations and profitability while maintaining the capital structure.
- Any deterioration in working capital cycle and liquidity profile.

Liquidity Position Adequate

The company's liquidity position is adequate, marked by sufficient net cash accruals against the maturing debt obligations. The company generated net cash accruals in the range of Rs.12.66-13.23 Crore from FY2021-23 against its maturity repayment obligations in the range of Rs.9.61-12.03 crore in the same tenure. In addition, it is expected to generate sufficient cash accrual in the range of Rs.13.98-16.27 crores against the maturing repayment obligations of Rs.8.6-9.61 crore over the medium term. The working capital management of the company is moderately intensive marked by GCA days of 125 days in FY2023 as against 131 days in FY2022. However, the reliance of working capital limits is moderate, reflected by average utilization of its working capital limits of around ~68 percent in last 12 months ending Dec' 2023, considering the maximum utilizations in each months. The company maintains unencumbered cash and bank balances of Rs.0.76 crore as on March 31, 2023. The current ratio stands at 2.34 times as on March 31, 2023 as against 1.95 times as on 31 March, 2022.

Acuite believes the liquidity position of the company may continue to remain adequate with steady cash accruals.

Outlook: Stable

Acuite believes the outlook on SDL will continue to remain 'Stable' over the medium term backed by its long track record of operations and experienced management. The outlook may be revised to 'Positive' if the company is able to successfully utilize higher capacity which will lead to significant improvement in scale of operations and the profitability margins while also improving its working capital operations. Conversely, the outlook may be revised to 'Negative' in case of any operating inefficiency by SDL leading to deterioration in revenue and profitability along with financial risk profile and liquidity position of the company.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 23 (Actual)	FY 22 (Actual)
Operating Income	Rs. Cr.	231.11	269.18
PAT	Rs. Cr.	0.23	0.13
PAT Margin	(%)	0.10	0.05
Total Debt/Tangible Net Worth	Times	0.70	1.09
PBDIT/Interest	Times	3.72	4.94

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>
- Rating Process and Timeline: <https://www.acuite.in/view-rating-criteria-67.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

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
Bank of Baroda	Not avl. / Not appl.	Bank Guarantee (BLR)	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	2.00	ACUITE A3 Assigned
Bank of Baroda	Not avl. / Not appl.	Cash Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	30.00	ACUITE BBB- Stable Assigned
Not Applicable	Not avl. / Not appl.	Proposed Long Term Bank Facility	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	1.49	ACUITE BBB- Stable Assigned
Bank of Baroda	Not avl. / Not appl.	Term Loan	Not avl. / Not appl.	Not avl. / Not appl.	30 Sep 2026	Simple	10.84	ACUITE BBB- Stable Assigned
Bank of Baroda	Not avl. / Not appl.	Term Loan	Not avl. / Not appl.	Not avl. / Not appl.	31 Oct 2030	Simple	12.86	ACUITE BBB- Stable Assigned
Bank of Baroda	Not avl. / Not appl.	Working Capital Term Loan	Not avl. / Not appl.	Not avl. / Not appl.	31 May 2026	Simple	7.81	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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