

April 17, 2013 - Mumbai

Facilities / Instruments	Amount (Rs. Crore)	Rating
Working Capital Demand Loans	365.00	SMERA BB+/Positive (Assigned)
Term Loans	380.22	SMERA BB+/Positive (Assigned)
Bank Guarantee*	1.20	SMERA BB+/Positive (Assigned)
Letter of Credit^	15.00	SMERA A4+ (Assigned)
Proposed Working Capital Demand Loans	115.00	SMERA BB+/Positive (Assigned)

\*Interchangeable with LC to the extent of Rs. 1.00 crore.

^ Interchangeable with Working Capital Demand Loan to the extent of Rs. 7.50 crore.

SMERA has assigned ratings of 'SMERA BB+' (read as SMERA Double B Plus) and 'SMERA A4+' (read as SMERA A Four Plus) to Shiva Textfabs Limited's (STL) Rs.876.42 crore bank facilities. The outlook is 'Positive'. The ratings derive comfort from STL's professionally qualified and experienced management, vertically integrated nature of operations, consistent revenue growth, diversified product portfolio and established distribution network. However the ratings are constrained by the company's ongoing debt-funded capital expenditure, average financial risk profile and working capital intensive nature of operations and exposure to group entities with below-average credit risk profiles.

STL's management is professionally qualified and has around three decades of experience in textile business. The company is currently managed by Mr. Akhil Malhotra and his son Mr. Mayank Malhotra. In addition, the management has also been successful in turning around ailing units in the past. The Shiva group acquired five dormant/BIFR registered units since 2005 and has successfully turned around operations in these entities. The ratings also derive strength from company's vertically integrated operations with facilities to manufacture rPET Flakes, Fibre, Yarn and Non-Woven Fabric using waste PET bottles as the primary raw material. STL has also witnessed strong revenue growth (CAGR of 43 per cent in the past 5 years) aided by established supplier relationships, diversified customer base, steady capacity expansion and constant product diversification into value added products. The company primarily sells its products in and around North India.

STL has moderately high gearing (expected to increase in FY 2012-13) and average liquidity metrics (low net cash accruals to total debt). STL has also undertaken two projects costing Rs.236 crore; both projects have a high proportion of debt funding (debt to equity of 3:1) which is likely to strain the company's gearing over the medium term (projects are expected to contribute to the topline of the company in FY 2013-14). The company's average financial risk profile is however supported by comfortable networth of Rs.322 crore as on March 31, 2012. STL's operations are working capital intensive as reflected in high gross current assets of 181 days as on March 31, 2012. Large inventory holding requirement and spot payment for purchases imply a high working capital requirement. Also, the company's bank limit utilization has remained high over the last one year (average of 96 per cent). STL has five group companies (accounting for ~40 per cent of group turnover) which have below-average credit risk metrics as compared to STL. However STL has not given any corporate guarantee for the loans extended to these entities, except the personal guarantee of the promoters.

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### Rating Sensitivity Factors

- Progress of debt-funded capital expenditure and consequential impact on STL's profile
- Deterioration in operating margin or gearing or debt-protection metrics
- Working capital management

### Outlook: Positive

SMERA believes that STL's rating will continue to benefit from the company's established market position, vertically integrated operations, focus on value addition and promoters experience in the textile industry. The rating may be revised if the company reports sustainable increase in revenue, an improvement in operating margin and debt protection metrics. Conversely, the outlook may be revised if the company's revenue growth is hampered or it's gearing or debt protection metrics deteriorate or liquidity is further stretched.

### About the Company

Incorporated in 1993, STL, the flagship company of the Shiva Group (operating since 1995). The company is engaged in manufacturing Polyester Stable Fibre (PSF) through PET bottles waste, various types of yarns (polyester filament yarn, drawn texturised yarn, fancy yarn, dyed spun yarn, etc) and non-woven fabrics. STL has vertically integrated operations with facilities to manufacture rPET Flakes, Fibre, Yarn and Non-Woven Fabric and by-products like Non-PET Plastic Granules, Rigid Packaging Straps, Fuel Oil, Carbon Black and Paraffin Wax, etc. The company has dyeing facility to manufacture dope dyed PSF and dyed yarn. STL has two manufacturing plants located at Ludhiana with an installed capacity of 100,512 spindles (December 31, 2012).

STL also has capacity to manufacture regenerated PET flakes of 70,000 MTPA, PSF of 38,500 MTPA, Polyester Filament Yarn of 17,500 MTPA, Drawn Texturised Yarn of 8,750 MTPA, Dyeing Capacity of 8,750 MTPA and Non-Woven Fabric of 3,500 MTPA as on December 31, 2012.

For FY 2011-12, STL reported a PAT of Rs.18.8 crore on net sales of Rs.1026.1 crore as compared with a PAT of Rs.29.6 crore on net sales of Rs.938.5 crore for FY 2010-11. For the six months ended September 30, 2012, STL reported a PAT of Rs.16.5 crore on net sales of Rs.635.5 crore as compared to a PAT of Rs.17.9 crore on net sales of Rs.474.0 crore for the corresponding period in the previous year.

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