



Press Release

Shriniwas Spintex Industries Pvt Ltd

April 16, 2020

Facilities	Amount (Rs. crore)	Rating	Rating Action
Long term Bank Facilities	39.09 (reduced from 40.00)	IVR BBB-/Stable Outlook (IVR Triple B Minus with Stable Outlook)	Revised from IVR BB+/ Stable outlook and removed from 'ISSUER NOT COOPERATING'
Total	39.09		

Details of Facilities are in Annexure 1

Detailed Rationale

The revision in the rating assigned to the bank facilities of Shriniwas Spintex Industries Pvt Ltd (SSIPL) takes into account improvement in its financial risk profile marked by improvement in revenue in FY19 and 10MFY20 along with improvement in the capital structure and debt protection metrics in FY19. Further, the rating continues to derive comfort from its experienced promoters, proximities to cotton growing areas and efficient working capital management. The rating strengths however, are continues to remain constrained by its modest scale of operations, limited track record, susceptibility of profitability to fluctuation in raw material prices, exposure to government regulations, intense competition and subdued cotton industry scenario.

Key Rating Sensitivities

Upward Rating Factor

- Significant growth in scale of business with improvement in profitability metrics thereby leading to overall improvement in cash accruals on a sustained basis
- Improvement in the capital structure and debt protection metrics
- Effective working capital management with improvement in operating cycle and liquidity

Downward Rating Factor

- Dip in operating income and/or profitability impacting the debt coverage indicators,



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- Withdrawal of subordinated unsecured loan amounting to Rs.13 crore and /or deterioration in the capital structure with overall gearing to below 1.5x and interest coverage to below 1.5x
- Elongation in the operating cycle impacting the liquidity and higher average utilisation in bank borrowings to more than 90% on a sustained basis

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

- **Experienced promoters**

Mr. Gopal Das Dhanraj Rathi, the Whole time Director of the company, has been associated with ginning and pressing industry for more than 31 years and also owns a ginning unit of his own. The extensive experience of the promoter has helped the company in establishing comfortable relation with customers and suppliers in a very short span of time.

- **Proximity of cotton growing areas**

SSIPL has its plant located in Hinganghat city. The city is a hub of India's cotton industry, with abundant supply of cotton. This results in easy availability of quality raw materials and savings in transportation costs.

- **Efficient working capital management**

Working capital management of the company is efficient, marked by its low operating cycle (37 days in FY19 and 45 days in FY18). The company has also prudently managed its receivable cycle that is reflected in the debtor days of around 9 days in FY19 (18 days in FY18). Consequently, the average of maximum working capital utilisation remained comfortable at about ~85% in the past 12 months ended January 2020.

- **Improvement in revenue in FY19 and 10MFY20**

The total operating income of the company has grown by ~5% in FY19 to Rs.134.67 crore from Rs.128.46 crore in FY18 driven by higher realisation and demand of its products. However, the EBITDA margin of the company moderated in FY19 from 9.24% in FY18 to 7.14% in FY19 as the company had to sacrifice on its margin to increase its scale of operation. However, with decline in finance charges and increase in non-operating income attributable to TUF interest subsidy and Industrial Promotion Subsidy



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claim receivable, PAT margin has improved from 0.52% in FY18 to 2.92% in FY19. Further, total operating income stood at Rs.136.77 crore for 10MFY20.

- **Improvement in capital structure and debt protection metrics in FY19**

The capital structure of SSIPL witnessed steady improvement during the last three fiscals ended in FY19. Long term Debt equity ratio and overall gearing ratio has further improved from 1.40x and 1.59x as on March 31, 2018 to 0.92x and 0.93x as on March 31, 2019 respectively with accretion of profit to reserves, infusion of subordinated unsecured loans and scheduled repayment of its term loan. To arrive at the net worth, Infomerics has considered Rs.13.00 crore of unsecured loans from the promoters and associates as quasi-equity as the same is subordinated to the bank facilities. Further, the debt protection metrics as indicated by interest coverage ratio and Total debt/GCA has remained satisfactory at 1.87x and 3.76 years respectively in FY19. Total indebtedness of the company as reflected by TOL/ANW also remained comfortable at 1.16x as on March 31, 2019 (1.69x as on March 31, 2018). Going forward, Infomerics believes that the capital structure to remain comfortable as SSIPL has maintained a conservative capital structure.

Key Rating Weaknesses

- **Company's modest scale and limited track record**

The company started its manufacturing operation only in October 2016 with install capacity of 20000 spindles. Further, notwithstanding the growth in scale of operations the scale of operation (Total Operating Income being Rs.134.67 crore in FY19) of the company continues to remained moderate.

- **Susceptibility of profitability to fluctuations in raw material prices and exposure to government regulations**

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.



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- **Intense competition**

The spinning industry is highly fragmented and competitive with the presence of large number of organised and unorganised players. Intense industry competition coupled with commoditised nature of the products limits SS IPL's pricing flexibility and bargaining power.

- **Subdued cotton industry scenario**

The domestic cotton spinning industry is highly dependent on exports, particularly to China, with ~30% of the yarn produced in India being exported. The coronavirus outbreak in China fueled the pressure on domestic and export yarn realisations and triggered moderation in realisations in recent times. Prolonged subdued industry scenario may impact the profitability of the company.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non-financial Sector)

Liquidity Position: Adequate

The liquidity position of the company is expected to remain adequate in the near to medium term driven by sufficient cushion in its expected cash accruals during FY21-22 as against its repayment obligations. Moreover, with a gearing of 0.93 times as of March 31, 2019, the company has sufficient gearing headroom. Further, the company has no major near term capex plan, which imparts comfort. Its average of maximum bank limit utilisation remained moderate at ~85% in the last 12 months ended on January 2020 is also indicating a moderate liquidity buffer.

About the Company

Shrinivas Spintex Industries Pvt Ltd., incorporated in 2013, was established by Mr. Gopaldas Dhanraj Rathi and Mr. Govind Gopaldas Rathi. However, manufacturing operations started only in late 2016. The company manufactures cotton yarn at Hinganghat (Maharashthra) and has an installed capacity of 20000 spindles of ring frame. The company



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manufactures 100% cotton yarn, mainly the carded and compact variety in counts of 20'-60' (40' count mainly). Additionally it also processes cotton bales.

Financials (Standalone):

For the year ended* / As On	(Rs. crore)	
	31-03-2018	31-03-2019
	Audited	Audited
Total Operating Income	128.46	134.67
EBITDA	11.87	9.62
PAT	0.67	4.09
Total Debt	38.19	28.53
Tangible Net worth	24.00	30.77
EBITDA Margin (%)	9.24	7.14
PAT Margin (%)	0.52	2.92
Overall Gearing Ratio (x)	1.59	0.93

*Classification as per Infomerics' standards.

Status of non-cooperation with previous CRA: Nil.

Any other information: Nil

Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2020-21)			Rating History for the past 3 years			
		Type	Amount outstanding (Rs. Crore)	Ratings	Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18	Date(s) & Rating(s) assigned in 2016-17
1.	Cash Credit	Long Term	9.00	IVR BBB-/ Stable Outlook	IVR BB+/ Stable Outlook (Issuer Not Co-operating) (January 21, 2020)	IVR BBB- / Stable Outlook (December 07, 2018)	-	-
2.	Term Loan	Long Term	28.19	IVR BBB-/ Stable Outlook	IVR BB+/ Stable Outlook	IVR BBB- / Stable Outlook	-	-



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					(Issuer Not Co-operating)			
3.	Bank Guarantee	Long Term	1.90	IVR BBB-/ Stable Outlook	IVR BB+ / Stable Outlook (Issuer Not Co-operating)	IVR BBB- / Stable Outlook	-	-

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.

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About Infomerics:

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. It is gradually gaining prominence in domestic rating and/or grading space. Infomerics is striving for positioning itself as the most trusted & credible rating agency in the country and is gradually widening its product portfolio. Company's long experience in varied spectrum of financial services is helping it to fine-tune its product offerings to best suit the market.



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Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Long Term Bank Facilities- Cash	-	-	-	9.00	IVR BBB- / Stable Outlook
Long Term Bank Facilities- Term Loan	-	-	March 2025	28.19	IVR BBB- / Stable Outlook
Long Term Bank Facilities- Bank Guarantee	-	-	-	1.90	IVR BBB- / Stable Outlook
Total				39.09	