

Press Release

Shrivallabh Pittie Industries Limited

March 05, 2020

Ratings

Sl. No.	Instrument/Facility	Amount (Rs. Crore)	Rating Assigned
1	Fund Based Bank Facilities – Cash Credit/WCDL/SODH [Sub-limit - PC/EPC/PCFC/FBP/FBD/EBR/EBN/FOBP/FOBN/PSC/PCL/Bank Guarantees/Letters of Credit/Buyers Credit]	127.50	IVR BB+ / Positive Outlook (IVR Double B Plus with Positive Outlook)/ IVR A4+ (IVR A Four Plus)
2	Fund Based Bank Facilities – Term Loans	186.17	IVR BB+ / Positive Outlook (IVR Double B Plus with Positive Outlook)
	Total	313.67	

Details of Facilities are in Annexure 1

Detailed Rationale

The assigned rating derives strength from an extensive experience of the promoters along with an established track record in the cotton business, various advantages to the company in terms of fiscal incentives offered by Government and proximity to raw materials. However, these strengths are partially offset by a moderate financial risk profile, customer and supplier concentration risk, susceptibility of profitability to raw material price volatility and regulatory and agro-climatic risks.

Key Rating Sensitivities

Upward Factor

- Substantial & sustained improvement in the company’s revenue and profitability along with improvement in the debt protection indicators.

Downward Factor

- Any decline in scale of operations, profitability and/or liquidity profile of the company.

List of key rating drivers with detailed description

Key Rating Strengths

Experienced Promoters with an established track record of group in the Cotton Industry:

Mr Chirag Pittie is currently leading the SVP group. He has over a decade of experience in the sector and is involved in the day to day management of business. He mainly focuses on business strategy formation and implementation for the company. The promoters are supported by the team of technical & qualified professionals. The SVP group has a long track record in the sector through other entities of the group involved in the similar activity.

Advantages in terms of fiscal incentives offered by Government:

The Company enjoys interest subsidy of 2% under the TUF scheme from the central government. Also, as the project was set-up in the backward location, the company receives interest subsidy from the State Government to the extent of 9% for its term debt. These leads to a net interest cost of ~1-2% on term debt of the company. Moreover, the company receives 100% electricity duty rebate, reimbursement of expenses incurred for training of labour and MAT credit.

Proximity to Raw Materials:

The major raw material consumed is cotton. The manufacturing facility of the Company is situated at the close proximity of major cotton growing area of Rajasthan & Madhya Pradesh, which provides easy access to raw material and thus leads to logistical efficiency.

Key Rating Weaknesses

Moderate financial risk profile:

The Net Interest coverage ratio of the company stood at 2.71x in FY 19 against 5.50x in FY18. The overall capital structure of the company is moderate. The overall gearing ratio stands at 1.32x in FY19 and 1.37 in FY18. The long term debt to GCA stands at 4.87 in FY19 and 3.38 in FY18. The TOL to TNW stands at 1.78 in FY19.

Customer and supplier concentration risk:

Customer and supplier concentration risk is there as Top 10 customers contributed ~56% to the total operating income and Top 10 suppliers contributed ~71% to total purchases in FY19.

Susceptibility of profitability to raw material price volatility:

The cotton processing industry's profitability margins are highly correlated with fluctuations in raw cotton prices. The company does not have any long-term contracts with suppliers with regards to either quantity or price, however, SVP group has several years of relationships. The cotton processing industry is fragmented and there is significant competition among the players in the industry, as a result their bargaining power is moderate. This restricts the players from fully passing on the input cost increases to customers or retaining any benefits of lower input costs. As a result, the profitability margins of the company are susceptible to the volatility in raw cotton prices.

Regulatory and agro-climatic risks:

The Company has high exposure to agro-climatic risks given that availability and pricing of cotton are seasonal with cotton season from mid-September to March every year. Prices are usually lower during the season and quality cotton is available only during the peak season, resulting in high inventory to be stocked for use in the non-peak season. Drought conditions in the major growing states of Maharashtra, Telangana, Gujarat and Andhra Pradesh in past, resulted in lower output and quality of crop. The Company is exposed to regulatory risks with respect to the minimum support price (MSP) for raw cotton, which is decided by the government every year and prices remain volatile based on demand and supply, which mainly depends on China's procurement every year.

Analytical Approach & Applicable Criteria:

Standalone

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non-financial Sector)

Liquidity: Stretched

The Company's average working capital limits utilization was high around 94% during the 12 months ended Dec 2019. The operating cycle was stretched at 251 days in FY19 against 106 days in FY18. However, the cash & cash equivalent was Rs. 8.90 Crs in FY19 against Rs. 1.12 Crs in FY18. Overall cash accruals are just sufficient to meet the repayment obligation. Overall liquidity seems to be stretched.

About the Company

ShreeVallabh Pittie Industries Ltd. (SVPIL) was formed by SVP Group for setting up a cotton yarn manufacturing unit with an installed capacity of 100,000 spindles at Jhalawar, Rajasthan. The Plant commenced commercial operations in 2016. The Company is engaged in the business of manufacturing & selling of combed compact cotton yarn, which is amongst the finest quality of cotton yarn in the Industry. SVPIL is a step down subsidiary of SVP Global Ventures Limited.

ShreeVallabh Pittie Group (SVP Group) is one of the major players in the Cotton Yarn Industry in India. The Group has total manufacturing capacity of over 350000 spindles and 2400 rotors and is one of the largest manufacturer of Compact Yarn in India. SVP Global Ventures Limited (SVPGVL), a listed entity, is the Parent Company of the Group.

Financials (Standalone)

(Rs. crore)

For the year ended* / As On	31-03-2018 (Audited)	31-03-2019 (Audited)
Total Operating Income	581.00	325.07
EBITDA	89.62	60.31
PAT	34.57	3.33
Total Debt	339.21	329.90
Tangible Net worth	212.85	216.29
EBITDA Margin (%)	15.42	18.55
PAT Margin (%)	5.63	0.94
Overall Gearing Ratio (x)	1.37	1.32

* Classification as per Infomerics' standards

Status of non-cooperation with previous CRA: N.A.

Any other information: N.A.

Rating History for last three years:

Sl. No.	Name of Instrument/ Facilities	Current Rating (Year 2019-20)			Rating History for the past 3 years		
		Type	Amount (Rs. Crs)	Rating	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	Fund Based Bank Facilities – Cash Credit/WCDL/SODH [Sub-limit - PC/EPC/PCFC/FBP/FBD/EB R/EBN/FOBP/FOBN/PSC/P CL/Bank Guarantees/Letters of Credit/Buyers Credit]	Long Term/ Short Term	127.50	IVR BB+ / Positive Outlook/ IVR A4+	--	--	--
2	Fund Based Bank Facilities – Term Loans	Long Term	186.17	IVR BB+/Positive 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. 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
Fund Based Bank Facilities – Cash Credit/WCDL/SODH [Sub-limit - PC/EPC/PCFC/FBP/FB D/EBR/EBN/FOBP/FO BN/PSC/PCL/Bank Guarantees/Letters of Credit/Buyers Credit]	--	--	Revolving	127.50	IVR BB+ / Positive Outlook/ IVR A4+
Fund Based Bank Facilities – Term Loans	--	--	September 2023	186.17	IVR BB+/Positive Outlook