



Press Release

Sivanta Spuntex Private Limited

August 06, 2020

Ratings

Sl. No.	Instrument/Facility	Amount (Rs. Crore)	Ratings Assigned
1.	Bank Facilities- Long Term	19.36	IVR BBB-/Stable (IVR Triple B minus with Stable Outlook)
2.	Bank Facilities- Short Term	5.64	IVR A3 (IVR A Three)
	Total	25.00 (Twenty Five Crore Only)	

Details of Facilities are in Annexure 1

Detailed Rationale

The ratings assigned to the bank facilities of Sivanta Spuntex Private Limited (SSPL) derives comfort from its experienced & resourceful promoters with fund infusion by the promoters, above unity profitability margins, comfortable operating cycle and comfortable working capital management. The ratings also positively factors in its proximity to raw material sources and various fiscal benefits in terms of subsidies through different government schemes. These rating strengths however gets tempered by its leveraged capital structure, susceptibility to fluctuations in cotton and cotton yarn prices and intensely competitive and fragmented yarn manufacturing industry.

Key Rating Sensitivities

Upward Rating Factors

- Growth in scale of operations with improvement in profitability and debt protection metrics on a sustained basis with improvement in its capital structure
- Management of working capital requirements efficiently with improved in liquidity position

Downward Rating Factors

- Moderation in scale of operations and/or profitability impacting the debt protection metrics on a sustained basis
- Moderation in the capital structure



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Detailed Description of Key Rating Drivers

Key Rating Strengths:

Experienced & resourceful promoters with fund infusion by the promoters

Mr. Narayan Prasad Ajitsaria aged 65 years along with Mr. Vineet Ajitsaria have experience of more than four decades and two decades, respectively in trading and manufacturing of textile products through their association with V. N. Dyers & Processors Private Limited (engaged in manufacturing of Polyester Yarn, Fabric, Polyester/ Viscose Yarn) and Rishik Spinning Private Limited (engaged in manufacturing of Polyester Yarn, Polyester/ Viscose Yarn), etc. Extensive experience of the promoters underpin the business risk profile of the company and supports it to develop established relationship with its customers. Further, the directors are well supported by an experienced team of professionals. The promoters have infused unsecured loan of Rs.6.13 Crore as on March 31st, 2019 and has undertaken to subordinate these unsecured loans to company's bank borrowings.

Above unity profitability margins

Operations being started in July 2018, FY20 is the first full year of operations for SSPL. The consolidated profit margins as marked by EBITDA and PAT stood at 8.50% and 0.52%, respectively for FY19, which improved and stood at 11.16% and 3.04% in FY20 (provisional). The improvement was mainly on account of decrease in manufacturing expense along with better absorption of fixed costs by the company.

Comfortable operating cycle and working capital management

Operating cycle of the company (consolidated) stood comfortable as marked by 26 days in FY19. SSPL's collection period stood at 11 days in FY19. SSPL being a reputed and trusted name in the market demands extra credit days from its creditors giving comfort to its working capital requirements. SSPL's inventory holding days stood at 16 for FY19, which mainly consisted of raw materials ensuring smooth production process. Also, the average working capital bank borrowings stood ~47% utilized for the past 12-months ending June 2020 giving enough headroom for any future working capital requirements.

Proximity to raw material sources

The unit is located near major cotton growing areas like, Punjab, Haryana and Rajasthan, resulting in easy availability of quality raw materials and huge savings in transportation costs as well.

Various fiscal benefits in terms of subsidies through different government schemes



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The company receives some subsidies from the Government like; 100% waiver of stamp duty paid for lease deed which amounted for Rs.0.32 crores approx., capital subsidy for Rs.5.00 crores, 7% subsidy on interest on loans for 7 years amounting to Rs.0.50 crores approx. on an annual basis, electricity at a discount of Rs.1.00 per unit for 7 years and electricity duty being waived-off on electricity bill for 7 years supporting the margins of the company.

Comfortable capital structure with healthy debt protection metrics

The overall gearing of the company stood comfortable at 0.12x as on March 31, 2019. The debt protection indicators of the company like interest coverage have remained above 8.50x for the past two financial years (FY19-FY18) and stood comfortably at 13.64x in FY19, improvement was on account of repayment of long term debt; reducing the interest cost for the company coupled with increased EBITDA margins. Total Debt/GCA remained below 1 year for the past three financial years (FY19-FY17) and stood at 0.43 years in FY19. Further, total indebtedness of the company as reflected by TOL/ATNW remained comfortable at 2.45x as on March 31, 2019.

Key Rating Weaknesses:

Leveraged capital structure

Due to highly debt funded nature of capital structure, SSPL witnessed gradual improvement in its leverage ratios backed by steady accretion of profit to net worth during FY20 (provisional numbers) and infusion of subordinated unsecured loans. The overall gearing (consolidated) stood levered at 2.51x as on March 31, 2019 on account of high debt infusion for capital expenditure. Further, total indebtedness of the company as reflected by TOL/ANW stood at 3.08x as on March 31, 2019. The debt protection metrics of the company also witnessed steady improvement backed by repayment of long-term borrowings and growing gross cash accruals during the past two financial years. The interest coverage ratio stood at 2.00x and Total debt to GCA stood at 7.17x in FY19. Moreover, the interest coverage ratio and Total debt to GCA improved and stood healthy at 2.73x and 4.88x, respectively in FY20 (provisional numbers).

Susceptibility to fluctuations in cotton and cotton yarn prices

The margins are highly susceptible to changes in the prices of cotton. The government through the Minimum Support Price (MSP) fixes the price of cotton. However, the purchase price depends on the prevailing demand-supply situation, which restricts bargaining power with



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suppliers as well. Any adverse movement of cotton prices further impacts profitability. Additionally, demand for yarn largely is driven by international demand supply dynamics, resulting in volatile margins.

Intensely competitive and fragmented yarn manufacturing industry

The yarn manufacturing industry is highly fragmented with presence of a large number of mills, leading to intense competition in the industry. The industry also faces stiff competition in the international market from the companies of other low-cost countries like Vietnam.

Analytical Approach: Consolidated

Applicable Criteria:

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non-financial Sector)

Liquidity: Adequate

The company is expected to generate cash accrual in the range of Rs.12.00-15.00 crore during FY20-FY22, which is adequate to serve its debt repayment obligations during the aforesaid period that is around Rs.7.00 crore. Its capex requirements are low and expected to be funded using internal accruals for which it has sufficient headroom. Moreover, its bank limits are utilized to the extent of ~47% during the past 12 months ended June 2020 indicating liquidity buffer.

About the Company

Mr. Narayan Prasad Ajitsaria and his son Mr. Vineet Ajitsaria incorporated M/s Sivanta Spuntex Private Limited (SSPL) on 12th January 2016. The company was incorporated with the objective of manufacturing textile products, especially yarn and fabric. The commercial operations of the company started in July 2018 with an initial investment of Rs.100.50 crore. The total number of installed spindles at SSPL is 25,920 with an annual capacity of 7079 metric ton (MT). The company usually makes yarn of 16, 24 and 30 counts while catering to client's special requests for higher or lower count produce at the same time. The main raw materials for producing Blended, Polyester and Cotton Yarn are cotton and polyester, which are majorly sourced from traders located in Gujarat, Rajasthan and Punjab. Promoters have an experience of around five decades in trading and manufacturing of textile products through



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their association with V. N. Dyers & Processors Private Limited (CRISIL BBB-/Stable/CRISIL A3) engaged in manufacturing of Polyester Yarn, Fabric, Polyester/Viscose Yarn and Rishik Spinning Private Limited engaged in manufacturing of Polyester Yarn, Polyester/ Viscose Yarn, etc.

Financials: Consolidated

(Rs. Crore)

For the year ended* / As On	31-03-2019 (Audited)	31-03-2020 (Provisional)
Total Operating Income	161.89	188.05
EBITDA	13.72	20.92
PAT	0.84	5.72
Total Debt*	85.90	71.74
Tangible Net worth*	34.20	39.90
EBITDA Margin (%)	8.50	11.16
PAT Margin (%)	0.52	3.04
Overall Gearing Ratio (x)*	2.51	1.80

*as per Infomerics standards

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

Any other information: N.A.

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)	Rating	Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18
1.	Term Loan	Long Term	7.36	IVR BBB-/Stable	-	-	-
2.	Cash Credit	Long Term	12.00	IVR BBB-/Stable	-	-	-
3.	Bank Guarantee	Short Term	5.64	IVR A3	-	-	-

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it based on 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– Term Loan	NA	NA	Jan, 2029	9.36	IVR BBB-/ Stable Outlook
Long Term Bank Facilities– Cash Credit	NA	NA	NA	12.00	IVR BBB-/ Stable Outlook
Short Term Bank Facilities– Bank Guarantee	NA	NA	NA	5.64	IVR A3