



Press Release

Kuber Texlen Pvt. Ltd.

June 09, 2021

Ratings

Sl. No.	Facility	Amount (Rs. Crore)	Ratings	Rating Action
1.	Long Term Bank Facility	17.20	IVR BB+ /Positive (IVR Double B Plus with Positive Outlook)	Assigned
2.	Short Term Bank Facility	0.25	IVR A4+ (IVR A Four Plus)	Assigned
	Total	17.45	INR Seventeen Crores and Forty-Five Lakhs Only	

Details of Facilities are in Annexure 1.

Detailed Rationale

The rating assigned to the bank facilities of Kuber Texlen Pvt. Ltd. (KTPL) consider the common management team and operational & financial linkages between KTPL and its group concerns, Chokshi Texlen Pvt. Ltd. (CTPL) and Sruti Filatex Pvt. Ltd (SFPL). Infomerics has taken a consolidated view of these entities referred together as Chokshi group. The rating derives strength from the extensive experience of its promoters in the textile industry with established relationship with its clientele, easy availability of raw material, stable financial performance supported by moderate capital structure and debt protection metrics. However, these rating strengths remain constrained by the groups susceptibility to fluctuation in key raw material prices, presence in highly fragmented industry marked by intense competition and working capital nature of its business.

Key Rating Sensitivities

Upward Factors:

- Sustained growth in sale of operation with improvement in profitability metrics with EBITDA margin remain above 12%
- Improvement in the capital structure with improvement in overall gearing ratio below 1.2x and debt protection metrics with the interest coverage above 3x
- Effective working capital management with improvement in operating cycle and improvement in liquidity



Press Release

Downward Factors:

- Decline in operating income and/or profitability impacting the cash accrual on a sustained basis with moderation in debt protection metrics
- Withdrawal of subordinated unsecured loans amounting to Rs.17.06 crore and/or deterioration in the capital structure
- Elongation in the operating cycle above 120 days, impacting the liquidity of the business

List of Key Rating Drivers with Detailed Description

Key Rating Strengths:

Experienced promoter

The operations of the Chokshi group are managed by Mr Niranjan Agarwal, and his sons, Mr Nikhil Agarwal and Mr Piyush Agarwal, all of them are having a good experience in the textile industry. Further long presence of the promoters in the industry has helped the group in establishing comfortable relationship with its suppliers and customers.

Easy availability of raw material

The group has easy access to raw materials as its manufacturing plant is located in Surat (Gujarat), which is one of the cottons growing belt, in India. Favourable location of the plants also enables the group to save on logistics costs and sourcing at competitive price.

Stable financial performance

The financial performance of the group remained stable over the past three fiscals ending in FY20. However, the group witnessed erratic movement in its combined total operating income due to fluctuation in demand scenarios in its operating spectrum. However, with curtailment in its raw material procurement cost on the back of its established presence the group has managed to improve its profitability over the past three fiscals. The operating margin of the company improved from 7.95% in FY18 to 11.29% in FY20. On the other hand, though the PAT margin of the group remained thin due to its leveraged capital structure with high reliance on external debt, witnessed marginal improvement in FY20. The gross cash accruals of the group have also gradually improved from Rs.7.54 crore in FY18 to Rs.12.17 crore in FY20. The group has achieved a combined revenue of ~Rs.223 crore in FY21(Provisional).



Press Release

Moderate capital structure and moderate debt protection metrics

The capital structure of the company remained leveraged with higher dependence on external borrowings marked by high overall gearing ratio as on the past three account closing dates. The debt profile of the group comprises subordinated unsecured loans aggregating to Rs.17.06 crore from the promoters which is considered as quasi equity. Considering the same the adjusted tangible net worth of the group stood at Rs.54.90 crore as on March 31,2020. However, the overall gearing ratio has improved from 1.95x as on March 31,2018 to 1.66x as on March 31,2020 driven by accretion of profit to net worth and scheduled repayment of term debts. Further, total indebtedness of the group also remained moderate at 2.04x as on March 31,2020. The debt protection metrics of the group also remained moderate as indicated by interest coverage ratio at 2.29x as on March 31, 2020A (2.13x as on March 31, 2019) and Total debt/GCA at 7.48 years as on March 31, 2020 (8.83 years as on March 31, 2019).

Key Rating Weakness:

Profitability susceptible to fluctuations in key raw material prices

The group's profitability is vulnerable to sharp fluctuations in raw material prices, which affects sales realisations. Cotton prices have been volatile in recent years. Given the nature of the industry and requirement to stock cotton for the non-cultivation phase profitability remains susceptible to any adverse movement in cotton prices along with high requirement of working capital.

Highly fragmented industry marked by 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 the group's pricing flexibility and bargaining power.

Working capital intensive nature of business

Operations are working capital intensive, as indicated by estimated gross current assets of 139 days as on March 31, 2020, driven by receivables and inventory of 67 days and 48 days, respectively. Absence of high credit from its suppliers led to higher reliance on bank funding.



Press Release

As a result, the average cash credit limit utilisation was at ~89% over the 12 months ended December 2020.

Analytical Approach:

For arriving at the ratings, Infomerics has combined the business and financial risk profiles of Chokshi Texlen Pvt. Ltd., Kuber Texlen Pvt. Ltd. and Sruti Filatex Pvt. Ltd. This is because these companies, collectively referred to as the Chokshi group, are under control of same promoters, have business and financial linkages and have extended inter-corporate guarantees. The list of Companies is given in **Annexure 2**

Applicable Criteria:

Rating Methodology for Manufacturing and Trading Companies
Financial Ratios & Interpretation (Non-Financial Sector)

Liquidity Position: Adequate

The liquidity of the Chokshi group is expected to remain adequate in the near term. The group is expected to generate cash accruals in the range of ~ Rs.14-18 crore as against debt repayment obligations in the range of Rs.8.5-11.5 crore during FY21-23. The group has generated gross cash accruals of ~Rs.12 crore as against repayment obligations of ~Rs.8.50 crore in FY20. However, the liquidity position of the group is restricted due to its high working capital intensity and low gearing headroom marked by its moderate capital structure. The average cash credit utilisation of the groups also stood moderate at ~89% during the past 12 months ended December,2020.

About the Group

The Chokshi Group comprising Chokshi Texlen Pvt Ltd (CTPL), Kuber Texlen Private Limited (KTPL) & Sruti Filatex Pvt Ltd (SFPL) is engaged in the business of manufacturing of Texturised yarn, Polyester Yarn 30/1, Fancy Yarn, Nylon Yarn etc. and other specialty yarns. The Chokshi group is promoted by one Agarwal family. The promoters are having two decades of experience and is providing an array of products and services to textile and apparel industries. The promoters are enriched with experience in the line of textile industry.



Press Release

They have established wise market relationship for in local market. The group is in the textile field since more than two decades with brand name “Chokshi”. The group is considered leading group in Surat with a large manufacturing capacity of Texturised yarn

About the Company

Kuber Texlen Pvt. Ltd is engaged in the business of manufacturing of Texturised yarn, Polyester Yarn 30/1, Fancy Yarn, Nylon Yarn etc. and other specialty yarns.

Financials (Combined)

For the year ended* / As On	(Rs. crore)	
	31-03-2019	31-03-2020
	Combined	Combined
Total Operating Income	209.04	193.92
EBITDA	19.56	23.78
PAT	1.99	1.99
Total Debt	86.44	91.03
Tangible Net worth	28.20	37.84
EBITDA Margin (%)	9.37	12.29
PAT Margin (%)	0.95	1.03
Overall Gearing Ratio (x)	1.91	1.66

**Classification as per Infomerics' standards.*

Financials (Standalone)

For the year ended* / As On	(Rs. crore)	
	31-03-2019	31-03-2020
	Audited	Audited
Total Operating Income	81.40	66.39
EBITDA	6.71	5.52
PAT	0.68	0.53
Total Debt	22.42	20.08
Tangible Net worth	8.75	9.28
EBITDA Margin (%)	8.25	8.34
PAT Margin (%)	0.84	0.80
Overall Gearing Ratio (x)	2.12	1.81

**Classification as per Infomerics' standards.*

Status of non-cooperation with previous CRA: Nil

Any other information: Nil

Rating History for last three years:



Press Release

Sr. No.	Name of Facilities	Current Rating (Year 2021-22)			Rating History for the past 3 years		
		Type	Amount (Rs. Crore)	Rating s	Date(s) & Rating(s) assigned in 2020-21	Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018-19
1.	Term Loans	Long Term	5.45	IVR BB+/ Positive	-	-	-
2.	Cash credit	Long Term	11.75	IVR BB+/ Positive	-	-	-
3.	Bank Guarantee	Short Term	0.25				

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.

Name and Contact Details of the Rating Analyst:

Name: Mr. Abhishek Nayak Tel: (033) 46022266 Email: aagarwal@infomerics.com	Name: Mr. Avik Podder Tel: (033) 46022266 Email: apodder@infomerics.com
--	---

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.

Disclaimer: Infomerics ratings are based on information provided by the issuer on an 'as is where is' basis. Infomerics credit ratings are an opinion on the credit risk of the issue / issuer and not a recommendation to buy, hold or sell securities. Infomerics reserves the right to change, suspend or withdraw the credit ratings at any point in time. Infomerics ratings are opinions on financial statements based on information provided by the management and information obtained from sources believed by it to be accurate and reliable. The credit quality ratings are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. We, however, do not guarantee the accuracy, adequacy or completeness of any information which we accepted and presumed to be free from misstatement, whether due to error or fraud. We are not responsible for



Press Release

any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by us have paid a credit rating fee, based on the amount and type of bank facilities/instruments. In case of partnership/proprietary concerns/Association of Persons (AOPs), the rating assigned by Infomerics is based on the capital deployed by the partners/proprietor/ AOPs and the financial strength of the firm at present. The rating may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor/ AOPs in addition to the financial performance and other relevant factors.

Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating / Outlook
Term Loan	-	-	September 2029	5.45	IVR BB+/ Positive
Cash Credit	-	-	-	11.75	IVR BB+/ Positive
Bank Guarantee	-	-	-	0.25	IVR A4+
Total				17.45	

Annexure 2: Facility wise lender details (Hyperlink to be added)

<https://www.infomerics.com/admin/prfiles/Lender-Kuber-Textlen-Private-Limited-09-Jun-21-.pdf>

Annexure 3: List of companies considered for consolidated analysis.

Name of the Company	Consolidation Approach
Chokshi Texlen Pvt. Ltd	Full consolidation
Kuber Texlen Pvt. Ltd	Full consolidation
Sruti Filatex Pvt Ltd	Full consolidation