



Press Release

Linen Art Private Limited

Dec 29, 2023

Ratings

Instrument Facility	Amount (Rs. Crore)	Current Ratings	Previous Rating	Rating Action	Complexity Indicator
Long term Bank Facilities	79.00	IVR BB+ /Stable Outlook (Pronounced as IVR Double B Plus with Stable Outlook)	IVR BBB- /Stable Outlook (Pronounced as IVR Triple B Minus with Stable Outlook)	Downgraded	Simple
Total	79.00	Seventy-Nine Crores Only			

Details of Facilities are in Annexure 1

Detailed Rationale

Infomerics Valuation and Rating Private Limited (IVR) has downgraded long-term rating to IVR BB+ with a Stable outlook for the bank loan facilities of Linen Art Private Limited (LAPL).

The rating has been downgraded due to deterioration in profitability margins & stretched capital structure of the company in FY2023 as compared to FY2022 as well as pending litigation with the National Company law Tribunal.

The rating continues to drive comfort from the long track record of operations under experienced promoters, strategic location of the plant, healthy debt protection metrics, and comfortable operating cycle. These rating strengths are, however, constrained by the relatively moderate scale of current operations, sharp drop in profits in FY23 (Audited), highly competitive and fragmented nature of the industry, and exposure to cyclicity, inherent in the textile industry.

The 'Stable' outlook indicates a low likelihood of rating change over the medium term.

IVR has principally relied on the standalone audited financial results of FY2023 and projected financials for FY2024, FY2025 and FY2026 and publicly available information/ clarifications provided by the company's management.

Key Rating Sensitivities:

Upward Factors



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- Significant growth in scale of business with improvement in profitability metrics thereby leading to overall improvement in cash accruals and liquidity.
- Improvement in the capital structure with further improvement in debt protection metrics.

Downward Factors

- Dip in operating income and/or profitability further impacting the debt coverage indicators and/or further deterioration in the financial risk profile.
- Any further significant rise in working capital intensity or unplanned capex leading to a further deterioration in the liquidity position.

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

Long track record of operations under experienced promoters

The company is promoted by Mr. Sitanshu Bipin Vora and Mr. Vimal Kumar Goenka. Mr. Sitanshu Bipin Vora is the Promoter and Director of Linen Art Private Limited and has been involved into manufacturing and trading of fabrics for the past 25 years. Mr. Vimal Kumar Goenka is another promoter and director of the company and has been involved into manufacturing and trading of fabrics for the past 5 years. Long standing presence of the promoter in the industry has helped the company to build good relationships with both customers and suppliers.

Strategic location of the plant

LAPL manufacturing facility is located in Tarapur, Maharashtra, which is in close proximity to the plants of various end user across the value chain of the textile industry. This helps LAPL in maintaining close relationships with its customers and supplying yarns to them with minimum lead time.

Comfortable operating cycle

Cash conversion cycle remains comfortable at 72 days in FY23 (PY 60 days) which reflects low reliance on working capital debt. The company is able to fund its working capital requirement on the back of favourable market demand and lower collection period from its customers

Key Rating Weaknesses



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Sharp drop in profits in FY23

EBITDA improved from Rs. 24.64 crore in FY21 to Rs.33.10 crore in FY22 and stood moderate to Rs. 35.21 crore in FY23. EBITDA margin improved marginally from 13.72% in FY21 to 15.14% in FY22 and to 16.54% in FY23, in spite of high increase in raw material costs. It should be noted that the Company operates in a very cyclical industry thus variations in gross and operating margins is a risk factor. PAT improved from Rs. 3.80 crore in FY21 to Rs. 11.89 crore in FY22 before dropping again to Rs. 5.77 crore in FY23. PAT margin improved from 2.07% in FY21 to 5.14% in FY22 and dipped again to 2.61% in FY23. As pointed out, FY23 has been a particularly harsh year for the textile and yarn industry because of very high cotton prices.

Stretched capital structure metrics

The overall gearing of the Company on tangible net worth remained constant from 1.75x on March 31, 2021, to 1.74x as on March 31, 2022 and deteriorated to 2.56x as on March 31, 2023, respectively. This was primarily because of increase in debt in these years. Total indebtedness as reflected by TOL/TNW dropped from 2.87x on March 31, 2021, to 2.33x on March 31, 2022. It inched up slightly higher on March 31, 2023, to 3.35x. Interest Coverage ratio improved markedly from 2.05x in FY21 to 2.68x in FY22 because of very high operating profits in FY22 before dropping again to 2.15x in FY23 as operating profits dwindled in FY23. DSCR remained comfortably above 1x between FY21 and FY23.

Intensive competition:

As the yarn manufacturing industry does not have many organized players, the competition is very high among the existing players. Most of wholesalers/retailers typically tend to be dependent on limited set of customers which leads to geographic concentration risk. Also, retail sales of international brands that have entered the Indian market in recent years, have been growing at a strong pace leading to a stiff competition with the domestic brands.

Profitability susceptible to fluctuations in key raw material prices

The company's profitability is vulnerable to sharp fluctuations in raw material prices, which affects sales realizations. Since raw material is fully imported, it would also have to manage foreign exchange fluctuation risk.

Analytical Approach: Standalone



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Applicable Criteria :

[Rating Methodology for Manufacturing entities](#)
[Financial Ratios & Interpretation Non- Financial Sector](#)
[Criteria for assigning rating outlook](#)

Liquidity – Adequate

The liquidity position of the company is expected to remain adequate as the company is expected to generate steady cash accruals as against its scheduled debt repayment obligation during FY24-26. The company is expected to earn Gross Cash Accruals (GCA) of Rs.26.92 crores in FY24 as against its repayment obligation of Rs.6.70 crores. Also, the company's current ratio stands at 1.36x. However, the working capital utilization of company stood at ~94.37% during past 12 months ended Oct 2023.

About the Company

Linen Art Private Limited was established as a private limited company in December 2013 as a private limited company with Mr. Shitanshu Bipin Vora as the promoter. The company has a manufacturing facility in Tarapur, Maharashtra with installed capacity of 12,544 Spindles per annum. The company is currently run by Mr. Sitanshu Bipin Vora and Mr. Vimal Kumar Goenka as the directors of the company. The company is the 3rd manufacturer of linen yarn in India and first of its kind in Maharashtra. Initially the firm commenced its operation with 78 tonnes of linen yarn per annum by installing 644 spindles at Tarapur, Maharashtra. Due to huge demand of Linen Yarn the company has further enhanced the capacity by 5888 spindles or 660 tons per annum. Currently the company is having a production capacity of 12,544 spindles per annum.

Financials (Standalone):

For the year ended* As on	(Rs. crore)	
	31-03-2022	31-03-2023
	Audited	Audited
Total Operating Income	218.66	212.87
EBITDA	33.10	35.21
PAT	11.89	5.77
Total Debt	110.91	178.23
Tangible Net worth*	63.76	69.53



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For the year ended* As on	31-03-2022	31-03-2023
EBITDA Margin (%)	15.14%	16.54%
PAT Margin (%)	5.14%	2.61%
Overall Gearing Ratio (x)	1.74x	2.56x

*as per Infomerics standards

Status of non-cooperation with previous CRA : Nil

Any other information: Nil

Rating History for last three years:

Sl. No.	Name of Instrument/ Facilities	Current Rating (Year 2023-24)			Rating History for the past 3 years		
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2022-23 Date: Oct 14, 2022	Date(s) & Rating(s) assigned in 2021-22 Date : Jan 18, 2022	Date(s) & Rating(s) assigned in 2020-21 Date : March 19, 2021
1	Term Loan	Long Term	50.00	IVR BB+ /Stable Outlook (Pronounced as IVR Double B Plus with Stable Outlook)	IVR BBB- /Stable Outlook (Pronounced as IVR Triple B Minus with Stable Outlook)	IVR BBB- /Negative Outlook (Pronounced as IVR Triple B Minus with Negative Outlook)	IVR BBB- /Credit watch with developing implication Outlook (Pronounced as IVR Triple B Minus with CWDI Outlook)
2	Cash Credit	Long term	29.00	IVR BB+ /Stable Outlook (Pronounced as IVR Double B Plus with Stable Outlook)	IVR BBB- /Stable Outlook (Pronounced as IVR Triple B Minus with Stable Outlook)	IVR BBB- /Negative Outlook (Pronounced as IVR Triple B Minus with Negative Outlook)	IVR BBB- /Credit watch with developing implication Outlook (Pronounced as IVR Triple B Minus with CWDI Outlook)

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About Infomerics:

Infomerics Valuation and Rating Private Ltd (Infomerics) was founded in the year 1986 by a team of highly experienced finance professionals for research and risk evaluation. Infomerics commenced its activities as External Credit Assessment Institution after obtaining registration from Securities Exchange Board of India (SEBI) and accreditation from Reserve Bank of India (RBI).

Adhering to best international practices and maintaining high degree of ethics, the team of analysts at Infomerics deliver quality credit ratings. Infomerics evaluates wide range of debt instruments which helps corporates access to financial markets and provides investors credit ratings backed by in-depth research. The transparent, robust, and credible ratings have gained the confidence of investors and the banks.

Infomerics has a pan India presence with Head Office in Delhi and Corporate Office at Mumbai, with branches in major cities and representatives in several locations.

Infomerics also has international presence with credit rating operations in Nepal through its JV subsidiary.

For more information visit www.infomerics.com.

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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
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Long Term Bank Facilities – Term Loan				50.00	IVR BB+ /Stable Outlook (Pronounced as IVR Double B Plus with Stable Outlook)
Long Term Bank Facilities – Cash Credit				29.00	IVR BB+ /Stable Outlook (Pronounced as IVR Double B Plus with Stable Outlook)

Annexure 2: List of companies considered for consolidated analysis: Not Applicable.

Annexure 3: Facility wise lender details:

<https://www.infomerics.com/admin/prfiles/len-LinenArt-dec23.pdf>

Annexure 4: Detailed explanation of covenants of the rated instrument/facilities: Not Applicable

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