



Press Release

Shivtex Spinning Private Limited

January 20, 2023

Ratings

Facilities	Amount (Rs. crore)	Ratings	Rating Action	Complexity Indicator
Long Term Bank Facilities	62.96 (Reduced from Rs.84.58)	IVR BBB/Stable (IVR Triple B with Stable Outlook)	Reaffirmed	Simple
Short Term Bank Facilities	1.70	IVR A3+ (IVR A Three plus)	Reaffirmed	Simple
Total	64.66 (Rupee Sixty- Four crore and Sixty Six lakh only)			

Details of Facilities are in Annexure 1

Detailed Rationale

The reaffirmation of the ratings assigned to the bank facilities of Shivtex Spinning Private Limited (SSPL) continues to derive comfort from extensive experience of its promoters in the textile industry, easy availability of raw material and eligibility for various government incentives which provide additional support to profitability. The ratings also note SSPL's stable operating performance and moderate capital structure along with its adequate debt protection parameters and instance of loan prepayment in FY23. However, these rating strengths continues to remain partially offset by its exposure to intense competition, susceptibility of its operating margin due to volatility in raw material prices and expected moderation in scale of operation in the near term.

Key Rating Sensitivities:

Upward rating Factors

- 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
- Effective working capital management with improvement in operating cycle and liquidity

Downward rating factors

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



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- Deterioration in the capital structure with moderation in overall gearing ratio to over 2x and/or moderation in debt protection metrics
- Elongation in the operating cycle impacting the liquidity and higher average utilisation in bank borrowings to more than ~95% on a sustained basis.

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

- **Extensive experience of promoters in textile industry**
The promoters of the company have been in the textile business for more than 20 years. Extensive business experience of the promoters with sound financial background supports the business risk profile of the company to a large extent.
- **Eligible under various Government incentive schemes**
The company is entitled to benefit from incentive schemes for the textile units from the Central and state governments such as 10% capital subsidy on plant and machinery under the Technology Upgradation Fund Scheme (TUFS), value-added tax concession on the total eligible investment made in plant and machinery, reimbursement of SGST, interest subsidy between 5%-7% for a period of five years (till August 2030) and power tariff subsidy of Rs.1 per unit for five years (till August 2023). These fiscal incentives support the profitability and help in reducing the payback period.
- **Easy availability of raw material**
The company has easy access to raw materials as its manufacturing plant is located in Ahmedabad (Gujarat), which is cotton growing belt of India. Favorable location of the plant also enables the company to save on logistics costs.
- **Stable operating performance though moderation expected in FY23**
The company registered a y-o-y growth of ~175% in its total operating income from Rs.147.27 crores in FY21(A) to Rs.407.50 crore in FY22(A) driven by sharp improvement in its sales volume. The EBITDA margin of the company has moderated from 14.32% in FY21(A) to 4.63% in FY22(A) mainly due to increase in raw material prices on account of lower cotton production in FY22. During H1FY23 the company has achieved a revenue of ~Rs.164 crore. Infomerics expects moderation in the scale of operation of the company in the near term.



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- **Moderate capital structure; adequate debt protection parameters and instance of prepayment in FY23**

The capital structure of the company continues to remain moderate as on March 31, 2022. Earlier, Infomerics has considered unsecured loan of Rs.6.75 crore as subordinated unsecured loan. However, due to instance of withdrawal of unsecured loan in FY22, Infomerics has now consider the unsecured loans as part of normal debt. The debt protection metrics of the company as indicated by interest coverage ratio continues to remain comfortable at 6.39x in FY22 vis-a-vis 2.09x in FY21. Further, Total debt to EBITDA also continues to remain comfortable at 4.88x in FY22 vis-a-vis 3.87x in FY21. The Total debt to GCA remained moderate at 5.61 years as on March 31, 2022. The company has prepaid its bank loans amounting to ~Rs.15.00 crore during 9MFY23.

Key Rating Weaknesses

- **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 realisations. Cotton prices have been volatile in recent years and thus its profitability remains susceptible to any adverse movement in cotton and yarn prices. However, the risk is mitigated to an extent on account of order-backed raw material procurement policy.

- **Exposure to 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.

Analytical Approach: Standalone

Applicable Criteria:

[Rating Methodology for Manufacturing Companies](#)

[Financial Ratios & Interpretation \(Non- Financial Sector\)](#)

[Criteria of assigning rating outlook](#)

Liquidity – Adequate



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The liquidity position of the company is expected to remain comfortable marked by its expected adequate gross cash accruals against its debt repayment obligations during FY23-FY25. The company has earned a gross cash accrual of Rs.16.39 crore in FY22 against debt repayment obligation of Rs.8.58 crore. Moreover, the company has prepaid its term debt amounting to Rs.15 crore during 9MFY23. Further, the current ratio stood comfortable at 2.49 times as on March 31, 2022. Average fund based working capital utilisation of the company in the past 12 months ended in November 2022 remained satisfactory at ~36% indicating an adequate liquidity buffer.

About the Company

Shivtex Spinning Private Limited was incorporated in September 2016. The primary activities of the company involve manufacturing of various count and kind of cotton spun yarn. Its manufacturing unit is located in Saijpur Gopalpur, Ahmedabad and commenced the commercial production from September 2017 with installed capacity of 5496 MTPA. Later, the company added additional capacity by setting up another spinning unit with a capacity of 6482 MTPA, which commenced operations from August 2018.

Financials: Standalone

For the year ended* / As On	(Rs. crore)	
	31-03-2021	31-03-2022
	Audited	Audited
Total Operating Income	147.27	407.50
EBITDA	21.09	18.85
PAT	2.86	6.34
Total Debt	81.64	91.98
Adjusted Tangible Net worth	59.62	59.23
EBITDA Margin (%)	14.32	4.63
PAT Margin (%)	1.93	1.56
Overall Gearing Ratio (x)	1.37	1.55

**Classification as per Infomerics' standards.*

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Nil

Rating History for last three years:

Sr. No.	Name of Instrument/Facility	Current Ratings (Year 2022-23)	Rating History for the past 3 years
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	es	Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2021-22	Date(s) & Rating(s) assigned in 2020-21	Date(s) & Rating(s) assigned in 2019-20
1.	Term Loan	LT	44.96	IVR BBB; Stable Outlook	IVR BBB; Stable Outlook (Oct 23,2021)	IVR BBB; Stable Outlook (July 24,2020)	-
2.	Cash Credit	LT	16.25	IVR BBB; Stable Outlook	IVR BBB; Stable Outlook (Oct 23,2021)	IVR BBB; Stable Outlook (July 24,2020)	-
3.	GECL	LT	1.75	IVR BBB; Stable Outlook	IVR BBB; Stable Outlook (Oct 23,2021)	IVR BBB; Stable Outlook (July 24,2020)	-
5.	Bank Guarantee	ST	1.70	IVRA3+	IVRA3+ (Oct 23,2021)	IVRA3+ (July 24,2020)	

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About Infomerics:

Infomerics was founded in the year 1986 by a team of highly experienced and knowledgeable finance professionals. Subsequently, after obtaining Securities Exchange Board of India registration and RBI accreditation and the activities of the company are extended to External Credit Assessment Institution (ECAI).

Adhering to best International Practices and maintaining high degree of ethics, the team of knowledgeable analytical professionals deliver credible evaluation of rating.

Infomerics evaluates wide range of debt instruments which helps corporates open horizons to raise capital and provides investors enlightened investment opportunities. The transparent, robust and credible rating has gained the confidence of Investors and Banks.

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

For more information visit <https://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
Term Loan	-	-	Mar 2028	44.96	IVR BBB; Stable
Cash Credit	-	-	-	16.25	IVR BBB; Stable
GECL	-	-	Mar 2026	1.75	IVR BBB; Stable
Bank Guarantee	-	-	-	1.70	IVRA3+

Annexure 2: Facility wise lender details:

<https://www.infomerics.com/admin/prfiles/Len-Shivtex-jan23.pdf>

Annexure 3: List of companies considered for consolidated analysis: Not Applicable

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 <https://www.infomerics.com>.