

Shingora Textiles Limited

June 07, 2017

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long-term Bank Facilities	38.04	CARE BBB+;Negative (Triple B Plus; Outlook: Negative)	Reaffirmed
Short-term Bank Facilities	4.29	CARE A2 (A Two)	Revised from CARE A2+ (A Two Plus)
Total Bank Facilities	42.33 (Rupees Forty Two crore and Thirty Three lakh only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the rating assigned to the short-term bank facilities of Shingora Textiles Limited (STL) factors in the elongated operating cycle and increased reliance on the working capital borrowings. The ratings are further constrained by the small & fluctuating scale of operations, customer concentration risk, susceptibility of margins to foreign currency fluctuations and high level of competition especially in the export market. The ratings, however, derive strength from the long track record of operations, experienced promoters, comfortable solvency position, favorable location of operations, diversified product portfolio, semi-integrated nature of operations, established market position and established business relationships with reputed clientele.

Going forward, the ability of the company to profitably scale-up its operations while maintaining the overall solvency position will remain the key rating sensitivities. Furthermore, any new capex and funding mix for the same will also remain a key rating sensitivity.

Outlook: Negative

The revenue stream and profitability of the company is expected to remain volatile which may further lead to a stretched operating cycle and high dependence on working capital borrowings. The outlook may be revised to 'Stable' based on STL's ability to scale-up its operations with efficient working capital management.

Detailed description of the key rating drivers

Key Rating Strengths

Comfortable solvency position: Despite the addition of term loans and unsecured loans to fund the capex undertaken in FY16 (refers to the period April 01 to March 31), the capital structure of the company remained comfortable with long-term debt to equity ratio and overall gearing ratio of 0.56x and 0.78x, respectively, as on March 31, 2016, improving slightly from 0.60x and 0.81x, respectively, as on March 31, 2015. Other debt coverage indicators, viz, total debt to GCA and the interest coverage ratio also remained comfortable at 3.89x as on March 31, 2016, and 4.95x in FY16, respectively, though deteriorating from 2.90x as on March 31, 2015, and 5.38x in FY15, respectively.

Experienced promoters with long track record of company operations: STL has a long track record of nearly two-and-a-half decades. Mr Ashok Jain and Mrs Mridula Jain, the current chairman and managing director of the company, respectively, hold an extensive industry experience of nearly four-and-a-half decades each. The other directors of the company including their sons, Mr Amit Jain and Mr Anuj Jain, have an industry experience of around 18 years and 13 years, respectively.

Established market position characterised by long & established business relationship with reputed clientele: STL has been engaged in the textile industry for nearly two-and-a-half decades which has led to established business relationships with both domestic and export clients. On the export side, STL manufactures for several major international luxury brands including ZARA, Moksha, FCUK, etc. Domestically, the company sells its products through a widespread distribution network of around 600 dealers, a self-owned showroom in Ludhiana, rented spaces in various malls and

¹Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.

several e-commerce websites including its own. A part of the export sales and all of the domestic sales are made under STL's brand name 'Shingora'.

Diversified product profile: Product portfolio of the company includes designer scarves, stoles, mufflers and several home décor items like table covers, throws, cushion covers, etc. The garments manufactured cater to the women, men and kids segment. The company has further added women's jackets, suits and various types of fabrics to its product profile. Sales of these products commenced in April 2018.

Favorable location of operations: Furthermore, the company's manufacturing facilities are based in Ludhiana, Punjab, which is a well-established hub of manufacturing of textiles and therefore enables easy raw material procurement.

Semi-integrated nature of operations: The manufacturing facility of the company is equipped with in-house facilities for dyeing, finishing, stitching, weaving, cutting, labeling/packing, dry-cleaning and washing. The company also has an in-house designing and research & development team.

Key Rating Weaknesses

Elongates operating cycle and increased reliance on working capital borrowings: The operating cycle of the company elongated from ~81 days, as on March 31, 2015, to ~98 days, as on March 31, 2016. This was on account of elongation of the inventory holding period from ~101 days, as on March 31, 2015, to ~117 days, as on March 31, 2016. The average utilization of the working capital limits also remained high at ~87% for the last 12-month period ended April 2017.

Small and fluctuating scale of operations: The total operating income grew by ~8% in FY16 on the back of higher quantity sold during the year. In 10MFY17 (Provisional), however, STL achieved a total operating income of Rs.73.64 crore, declining by ~15% as compared with the income achieved in 10MFY16 (Provisional).

Customer concentration risk: The revenue profile of the company is associated with a customer concentration risk with top five customers contributing ~53% and the top customer contributing ~27% of the total operating income during FY15.

Susceptibility of margins to any adverse fluctuations in foreign currency prices: STL primarily engages in export of its products with income from export sales forming ~85% of the gross sales in FY16, the remaining exposure remains unhedged making the profitability margins susceptible to any adverse fluctuations in the foreign exchange rates.

High level of competition especially in the export market: The readymade garment industry in India is characterized by a presence of a large number of small and big players in the organized sector as well as unorganized sector and high level of competition from players based in China and Bangladesh.

Analytical approach: Standalone

Applicable Criteria

[Criteria on assigning Outlook to Credit Ratings](#)

[Financial ratios – Non-Financial Sector](#)

[CARE's methodology for manufacturing companies](#)

[CARE's policy on default recognition](#)

[Criteria for short-term instruments](#)

About the Company

Initially formed as a partnership concern by the name 'Shingora International' in 1992, the firm was subsequently reconstituted as a public limited company by the name of 'Shingora Textiles Limited' (STL) in June 2008. STL is engaged in the manufacturing of readymade garments like scarves, shawls, etc. and various home décor items at its two manufacturing facilities located in Ludhiana (Punjab). The company is primarily engaged in the export of its products to Japan, Belgium, Switzerland, Germany, USA, Canada, Australia, etc. A part of the sales are also made under STL's own brand name 'Shingora'. The group concerns of the company include Shingora Fashion Fabrics Private Limited, (currently non-operational) and Shingora Technologies, which was formed for providing ERP (Economic Resource Planning) solutions to STL and other clients.

STL registered a total operating income of Rs.98.89 crore during FY16 with a PAT of Rs.2.16 crore as against a total operating income of Rs.91.19 crore with PAT of Rs.7.23 crore in FY15. In 10MFY17 (Provisional), the company has registered a total operating income of Rs.86.42 crore.

Status of non-cooperation with previous CRA: On account of non-cooperation by STL with CRISIL's efforts to undertake a review, STL's ratings with CRISIL have been suspended vide PR dated December 13, 2016.

Any other information: Not Applicable.

Rating History for last three years: Please refer Annexure-2

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

Analyst Contact

Name: Mr Sudeep Sanwal

Tel: 0172-4904004

Mobile: 9958043187

Email: sudeep.sanwal@careratings.com

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In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

Annexure-1 Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	March-2022	22.04	CARE BBB+; Negative
Fund-based - LT-Stand by Limits	-	-	-	3.00	CARE BBB+; Negative
Non-fund-based - ST-ILC/FLC	-	-	-	3.00	CARE A2
Fund-based - LT-Working Capital Limits	-	-	-	13.00	CARE BBB+; Negative
Non-fund-based-Short-term	-	-	-	1.29	CARE A2

Annexure-2 Rating History for last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Fund-based - LT-Term Loan	LT	22.04	CARE BBB+; Negative	-	1)CARE BBB+ (22-Aug-16)	-	-
2.	Fund-based - LT-Stand by Limits	LT	3.00	CARE BBB+; Negative	-	1)CARE BBB+ (22-Aug-16)	-	-
3.	Non-fund-based - ST-ILC/FLC	ST	3.00	CARE A2	-	1)CARE A2+ (22-Aug-16)	-	-
4.	Fund-based - LT-Working Capital Limits	LT	13.00	CARE BBB+; Negative	-	1)CARE BBB+ (22-Aug-16)	-	-
5.	Non-fund-based-Short-term	ST	1.29	CARE A2	-	1)CARE A2+ (22-Aug-16)	-	-

CONTACT

Head Office Mumbai

Mr. Mehul Pandya

Cell: +91-98242 56265

E-mail: mehul.pandya@careratings.com

Mr. Saikat Roy

Cell: + 91 98209 98779

E-mail: saikat.roy@careratings.com

CREDIT ANALYSIS & RESEARCH LIMITED

Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022

Tel: +91-22-6754 3456 | Fax: +91-22-6754 3457 | E-mail: care@careratings.com

AHMEDABAD

Mr. Deepak Prajapati

32, Titanium, Prahaladnagar Corporate Road,
Satellite, Ahmedabad - 380 015

Cell: +91-9099028864

Tel: +91-79-4026 5656

E-mail: deepak.prajapati@careratings.com

BENGALURU

Mr. Deepak Prajapati

Unit No. 1101-1102, 11th Floor, Prestige Meridian II,
No. 30, M.G. Road, Bangalore - 560 001.

Cell: +91-9099028864

Tel: +91-80-4115 0445, 4165 4529

E-mail: deepak.prajapati@careratings.com

CHANDIGARH

Mr. Sajan Goyal

SCF No. 54-55,
First Floor, Phase 11,
Sector 65, Mohali - 160062
Chandigarh

Cell: +91 99888 05650

Tel: +91-172-5171 100 / 09

Email: sajan.goyal@careratings.com

CHENNAI

Mr. V Pradeep Kumar

Unit No. O-509/C, Spencer Plaza, 5th Floor,
No. 769, Anna Salai, Chennai - 600 002.

Cell: +91 98407 54521

Tel: +91-44-2849 7812 / 0811

Email: pradeep.kumar@careratings.com

COIMBATORE

Mr. V Pradeep Kumar

T-3, 3rd Floor, Manchester Square
Puliakulam Road, Coimbatore - 641 037.

Tel: +91-422-4332399 / 4502399

Email: pradeep.kumar@careratings.com

HYDERABAD

Mr. Ramesh Bob

401, Ashoka Scintilla, 3-6-502, Himayat Nagar,
Hyderabad - 500 029.

Cell : + 91 90520 00521

Tel: +91-40-4010 2030

E-mail: ramesh.bob@careratings.com

JAIPUR

Mr. Nikhil Soni

304, Pashupati Akshat Heights, Plot No. D-91,
Madho Singh Road, Near Collectorate Circle,
Bani Park, Jaipur - 302 016.

Cell: +91 – 95490 33222

Tel: +91-141-402 0213 / 14

E-mail: nikhil.soni@careratings.com

KOLKATA

Ms. Priti Agarwal

3rd Floor, Prasad Chambers, (Shagun Mall Bldg.)
10A, Shakespeare Sarani, Kolkata - 700 071.

Cell: +91-98319 67110

Tel: +91-33- 4018 1600

E-mail: priti.agarwal@careratings.com

NEW DELHI

Ms. Swati Agrawal

13th Floor, E-1 Block, Videocon Tower,
Jhandewalan Extension, New Delhi - 110 055.

Cell: +91-98117 45677

Tel: +91-11-4533 3200

E-mail: swati.agrawal@careratings.com

PUNE

Mr. Pratim Banerjee

9th Floor, Pride Kumar Senate,
Plot No. 970, Bhamburda, Senapati Bapat Road,
Shivaji Nagar, Pune - 411 015.

Cell: +91-98361 07331

Tel: +91-20- 4000 9000

E-mail: pratim.banerjee@careratings.com

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