

Somnath Spinning Private Limited

December 02, 2022

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long Term Bank Facilities	55.60	CARE B+; Stable (Single B Plus; Outlook: Stable)	Assigned
Long Term / Short Term Bank Facilities	3.50	CARE B+; Stable / CARE A4 (Single B Plus; Outlook: Stable/ A Four)	Assigned
Short Term Bank Facilities	0.20	CARE A4 (A Four)	Assigned
Total Bank Facilities	59.30 (₹ Fifty-Nine Crore and Thirty Lakhs Only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Somnath Spinning Private Limited (SSPL) are primarily constrained on account of implementation and stabilization risk associated with its ongoing project along with susceptibility of profit margins to volatility in raw material prices in highly competitive and inherent cyclical industry.

The ratings, however, derives strengths from experienced promoters, location advantage of plant being located in cotton producing region and eligibility for incentives under governmental policies for the textile industry.

Rating Sensitivities

Positive Factors - Factors that could lead to positive rating action/upgrade:

- Timely completion of the project within envisaged cost parameters
- Achievement of envisaged scale of operations and profitability while maintaining moderate capital structure

Negative Factors- Factors that could lead to negative rating action/downgrade:

- Time overrun or cost overrun of the project by more than six months

Detailed description of the key rating drivers

Key Rating Weaknesses

Implementation and stabilization risk associated with ongoing project

SSPL is implementing greenfield project for manufacturing of combed and compact cotton yarn with proposed installed capacity of 18240 spindles at its plant located at Dhrangadhra, Saurashtra, Gujarat. The project cost is estimated at Rs.76.34 crore with project DER of 1.48 times considering unsecured loan of Rs.5.74 crore as quasi equity. The debt has been tied up with term loan yet to be disbursed. Furthermore, commercial production is expected to commence in H2FY24. Till September 30, 2022, it has incurred Rs.17.89 crore including advance payment of Rs.4.67 crore towards machineries and has cash and bank balance of Rs.6.18 crore. Considering the nascent stage of project, timely completion of the project within the envisaged cost parameters is critical for SSPL. Further, post project implementation, stabilization of operations by achieving envisaged capacity utilization and sales realization also remains crucial.

Highly competitive and inherent cyclical industry

The yarn manufacturing industry is highly competitive and fragmented with the presence of large number of players which limits the pricing power of them. The textile industry also witnesses regulatory risks such as change in domestic and international government policies related to subsidies or imports / exports, which also affects the industry players. Also, there is stiff competition from Bangladesh, Vietnam etc. in terms of cotton exports. Further, the textile industry is inherently vulnerable to the economic cycles and is sensitive to overall economic activities, hence, fortunes of industry players are lined with overall economic situation.

Susceptibility of profit margins to volatility in raw material prices

SSPL's profitability is susceptible to the movement in the prices of raw cotton which is the key raw material for production of cotton yarn. The prices of raw cotton are volatile in nature and depend upon factors such as area under production, yield, vagaries of monsoon, international demand supply scenario, inventory carry forward from the previous year and export quota along with minimum support price (MSP) decided by the government. Prices of raw cotton have been volatile over last couple of years, which translates into risk of inventory losses for the industry players.

¹Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Key Rating Strengths

Rich experience in the industry with established track record of group companies

SSPL is promoted by Mr. Amrutchand Patel, Mohit Patel, Manoj Hulani, Nitin Goraiya, Dilip Talvaniya and Vasudev Patel. Promoters have rich experience of over two decades in the agro. and allied industries. Mr. Amrutchand Patel, has over 22 years of experience in agro. based business comprising of trading of seeds, pesticide products and grain sorting and cleaning. Mr. Mohit Patel has experience of over 6 years in the textile industry. Mr. Nitin Goraiya [B.E. Mechanical] will look after finance and accounts for the proposed project. Mr. Vasudev Patel has vast experience in agricultural fields through his engagement in group company which is into the business of trading seeds and pesticides. For the proposed project, he will be handling marketing department.

Plant location advantage

The manufacturing facility of SSPL is located in Dhrangadhra district, Saurashtra region of Gujarat which is one of the major cotton producing region of Gujarat. Hence, SSPL's presence in cotton producing region has benefitted it in terms of easy availability of raw materials and labour. Also, its location proximity to Mundra, Kandla and Pipava ports and easy access to railway lines resulted into lower logistics costs.

Incentives under governmental policies

SSPL falls under the definition of the thrust industries and is eligible for the incentives to thrust industries under the 'Atmanirbhar Gujarat Schemes-2022' like interest subsidy, net SGST reimbursement for 10 years and EPF reimbursement for 10 years. However, application for the same is yet to be done.

Liquidity: Stretched

Liquidity position of SSPL remained stretched considering the nascent stage of its project and pending debt disbursement. However, comfort is drawn from the fact that promoters has infused major part of their share in the initial stage of project.

Analytical approach: Standalone

Applicable Criteria

[Policy on default recognition](#)

[Financial Ratios – Non financial Sector](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Credit Watch](#)

[Short Term Instruments](#)

[Cotton Textile](#)

[Manufacturing Companies](#)

[Project stage companies](#)

[Policy on Withdrawal of Ratings](#)

About the Company

Somnath Spinning Private Limited (SSPL; CIN:U17299GJ2021PTC125755), established in September 2021, is promoted by Amrutchand Patel, Mohit Patel, Nitin Goraiya, Dilip Talvaniya, Manoj Hulani and Vasudev Patel. SSPL is implementing greenfield project for manufacturing of combed and compact cotton yarn with an installed capacity of 18,240 spindles consisting of 10 ring frames of 1,824 spindles at its plant located at Dhrangadhra district of Surendranagar, Gujarat. SSPL is also proposed to recycle by-products generated from the yarn production process to produce lower counts of yarn.

Brief Financials (₹ crore)	March 31, 2022 (A)	H1FY23 (UA)
Total operating income	NM	NM
PBILDT	NM	NM
PAT	NM	NM
Overall gearing (times)	1.02	NM
Interest coverage (times)	NM	NM

A: Audited; UA: Unaudited; NM: Not Meaningful since SSPL being project stage entity and is expected to commence its operations in H2FY24

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure 4

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	10.00	CARE B+; Stable
Fund-based - LT-Term Loan		-	-	31-03-2032	45.60	CARE B+; Stable
Non-fund-based - LT/ST-Bank Guarantee		-	-	-	3.50	CARE B+; Stable / CARE A4
Non-fund-based - ST-Credit Exposure Limit		-	-	-	0.20	CARE A4

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based - LT-Term Loan	LT	45.60	CARE B+; Stable	-	-	-	-
2	Fund-based - LT-Cash Credit	LT	10.00	CARE B+; Stable	-	-	-	-
3	Non-fund-based - LT/ST-Bank Guarantee	LT/ST*	3.50	CARE B+; Stable / CARE A4	-	-	-	-
4	Non-fund-based - ST-Credit Exposure Limit	ST	0.20	CARE A4	-	-	-	-

*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities

Name of the Instrument	Detailed Explanation
A. Financial covenants	
I.	Debt Service Reserve Account (DSRA) equivalent to 3 months interest and principal amount
II.	Unsecured loan of Rs.5.74 to be maintained during the tenor of the term loan

Annexure-4: Complexity level of various instruments rated for this company

Sr. No.	Name of Instrument	Complexity Level
1	Fund-based - LT-Cash Credit	Simple
2	Fund-based - LT-Term Loan	Simple
3	Non-fund-based - LT/ ST-Bank Guarantee	Simple
4	Non-fund-based - ST-Credit Exposure Limit	Simple

Annexure-5: Bank lender details for this company

To view the lender wise details of bank facilities please [click here](#)

Note on complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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