

Sri Shyam Fashion Textiles Private Limited

December 03, 2021

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating ¹	Rating Action
Long Term Bank Facilities	20.00	CARE BBB-; Stable (Triple B Minus; Outlook: Stable)	Reaffirmed; Outlook revised from Negative
Total Bank Facilities	20.00 (Rs. Twenty Crore Only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The outlook revision from 'Negative' to 'Stable' of Sri Shyam Fashion Textiles Private Limited (SSFTPL) is due to continued pickup in sales from H2FY21 albeit dip in May 2021 due to second wave of the pandemic, and improvement in working capital cycle in the current fiscal.

The reaffirmation in rating continues to derive comfort from experienced promoters, satisfactory capital structure and debt protection metrics, diversified customer profile and focus towards trading of value added products yielding better margins. The rating, however, remains constrained by working capital intensive nature of operations, profitability susceptible to volatility in prices of traded goods and intensely competitive nature of industry.

Rating Sensitivities

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

- PBILDT margin above 8% coupled with interest coverage ratio above 4x
- Increase in total operating income above Rs.270 crore on a sustained basis

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

- Deterioration in Interest coverage below 2x and overall gearing above 1.6x
- Deterioration in Total Debt to GCA beyond 10.5x on a sustained basis
- Fall in the total operating income below Rs.170.00 crore

Detailed description of the key rating drivers

Key Rating Strengths

Experienced Promoters

SSFTPL has a long track record of operation of more than seven decades since its inception in 1950 as a proprietorship concern. The promoter Mr Suresh Kumar Jalan is associated with the business for more than three decades. Under his leadership the company has gradually grown over the years.

Improvement in financial performance in H1FY22 though moderated in FY21 owing to Covid-19

The company generated total operating income of Rs.191.24 crore during FY21 (Prov.) as against Rs.206.53 crore in FY20 amid covid-19 hit year as operations were impacted for most part of Q1FY21 and sales started to pick up September 2020 onwards as things started to move towards normalization. The PBILDT margin stood at 6.47% while the PAT margin stood at 2.53% during FY21 (Prov.). The gross cash accruals stood at Rs.5.21 crore during FY21 (Prov.) against nil debt repayment obligation.

The company has generated operating income of approximately Rs.122 crore during 7MFY22 with pickup in sales from June 2021 onwards. Moreover, the debtor levels has seen slight improvement from Rs.87.74 crore as on Mar 31, 2021 to Rs.80.80 crore as on Sep 30, 2021.

Satisfactory capital structure and debt protection metrics

The capital structure of the company is satisfactory marked by overall gearing ratio of 1.22x as on March 31, 2021 (Prov.) as against 1.36x as on March 31, 2020 while the Total Debt/Gross Cash Accruals stood at 12.70x in FY21. The company has subordinated unsecured loans of Rs.16.60 crore in the current financial year. Considering the same as quasi equity, the overall gearing and Total Debt/Gross Cash Accruals will further improve to 0.70x & 9.51x respectively in FY21 resulting in improved financial risk profile of the company.

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

Diversified customer profile

The company derives majority of its revenue from sale of traded goods in Kolkata. SSFTPL also deals with various wholesalers and garment manufacturers in Delhi, Mumbai, Ahmedabad, Indore and other cities in India. Moreover, contribution of its top five customers does not exceed 20% of its total sales in FY21 (Prov.). SSFTPL supplies to companies like Lux Industries, Atharv Textiles, Hoffmen Fashions and also to retailers like Avenue Supermarts Ltd. (DMART) and Reliance Trends.

Focus towards trading of value added products yielding better margins

The company also buys grey fabrics from manufacturers and further processes it, i.e. dying, designing, rubbing, peaching and printing, on job work basis as per prevailing market trends which constitutes around 35-40% of the total sales.

Key Rating Weaknesses**Working capital intensive nature of operations**

The working capital cycle elongated from 182 days in FY20 to 212 days in FY21 (Prov.) on account of dip in sales and increase in receivables. The average collection days stood at 157 days in FY21 (Prov.) as against 143 days in FY20 while the average inventory days stood at 166 days in FY21 (Prov.) as against 150 days in FY20. Further, with improvement in sales and lower receivables, the company's operating cycle improved to 190 days during 7MFY22.

Profitability susceptible to volatility in prices of traded goods

SSFTPL continues to operate at low profit margin due to its trading nature of business marked by high competition and low bargaining power. Cost of traded goods accounts for more than 80% of total cost of sales and accordingly, the company's profitability is susceptible to volatility in prices of traded goods. Further, SSFTPL procures materials from large players like Jindal Worldwide Ltd, Arvind Ltd, Century Denim (a division of Century Textiles and Industries Ltd) which restricts the bargaining power of SSFTPL. The company tries to avail the benefit of cash discount of around 3% by procuring in bulk from the manufactures/ suppliers.

Intensely competitive nature of industry

The company operates in trading business that has limited value addition, low entry level barriers coupled with fragmented in nature owing to presence of a large number of organized and unorganized players which make competition intense. Moreover, marginal product differentiation further intensifies the competition.

Liquidity: Adequate

The liquidity position of the company is adequate which is characterized by sufficient cash accruals with nil term debt. However, the average monthly fund-based working capital utilization stands around 85-90% for the last 12 months ended October 31, 2021.

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](#)

[Wholesale Trading](#)

About the Company

Sri Shyam Fashion Textiles Pvt Ltd (SSFTPL) was incorporated by Mr. Suresh Kumar Jalan of Purulia (West Bengal) in March 2003. The company started its operation as a proprietorship concern under the guidance of Late Mr. Babulal Jalan (father of Mr. Suresh Jalan) in 1950. Later, with the growth in operations it was reconstituted as a private limited company under the leadership of Mr. Suresh Jalan. The company started its operations in Kolkata in 1990.

SSFTPL is engaged in the trading of clothing fabrics and operates in the domestic market. The company mainly deals in the kids wear segment. It procures fabrics and denims (Lycra, Non-lycra, solids, printed fabrics etc.) from manufacturers/textile millers and sells the denims, in wholesale market or to garments manufacturers of Kolkata, Delhi, Ahmedabad and Mumbai with major focus in Kolkata. The company also buys grey fabrics from manufacturers and further processes it, i.e. dying, designing, rubbing, peaching and printing, on job work basis as per prevailing market trends which constitutes around 35-40% of the total sales.

SSFTPL has its rented warehouses in Lungi, Budge Budge (West Bengal) and Ahmedabad.

SSFTPL is a closely held family managed business. Board comprises of three members from the promoters' family with Mr. Suresh Jalan, being at the helm of affairs of the company and assisted by his sons Mr. Saurav Jalan and Mr. Vaibhav Jalan.

Brief Financials (Rs. crore)	31-03-2020 (A)	31-03-2021 (P)	7MFY22 (P)
Total operating income	206.53	191.24	121.69
PBILDT	15.15	12.38	NA
PAT	6.27	4.83	NA
Overall gearing (times)	1.36	1.22	NA
Interest coverage (times)	2.36	2.23	NA

A: Audited; P: Provisional; NA: Not Available

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	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Working Capital Limits	-	-	-	-	10.00	CARE BBB-; Stable
Fund-based - LT-Cash Credit	-	-	-	-	10.00	CARE BBB-; Stable

Annexure-2: Rating History of 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 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Fund-based - LT-Working Capital Limits	LT	10.00	CARE BBB-; Stable	-	1)CARE BBB-; Negative (26-Mar-21)	1)CARE BBB-; Negative (02-Mar-20)	1)CARE BBB-; Stable (08-Jan-19)
2	Fund-based - LT-Cash Credit	LT	10.00	CARE BBB-; Stable	-	1)CARE BBB-; Negative (26-Mar-21)	1)CARE BBB-; Negative (02-Mar-20)	1)CARE BBB-; Stable (08-Jan-19)

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities: Not Applicable

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-Working Capital Limits	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 instrument: CARE has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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