

Smruti Spintex Private Limited

June 05, 2024

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long Term Bank Facilities	33.50	CARE BB-; Stable	Assigned
Long Term / Short Term Bank Facilities	7.00	CARE BB-; Stable / CARE A4	Assigned

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The rating assigned to the bank facilities of Smruti Spintex Private Limited (SSPL) is constrained on account of its nascent stage of operations, susceptibility of its profit margins to volatility in raw material prices, presence in competitive and cyclical textile industry and stretched liquidity.

The ratings, however, derive strength from the long-standing experience of promoters in textile business, favourable plant location and financial risk profile marked by moderate profitability, leveraged capital structure and weak debt coverage indicators.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Growth in the scale of operation with total operating income (TOI) above Rs.120 crore with profit before interest, lease, depreciation and tax (PBILDT) margin 8% on sustained basis.
- Overall gearing below 2.50x on sustained basis

Negative factors

- Significant decline in TOI or Profitability.
- Any large size debt funded capex

Analytical approach: Standalone

Outlook: Stable

The outlook on the long-term rating of SSPL is "Stable" as CARE Ratings Limited (CARE Ratings) expects the entity would continue to benefit from the extensive experience of the promoters in the industry along with location advantage with presence in cotton ginning hub with easy access to raw materials.

Detailed description of the key rating drivers:

Key weaknesses

Nascent stage of operations

SSPL started commercial production from October 2023 month, hence it has a limited track record of operation. During first six months of operations, it reported TOI of Rs.43.28 crore and likely to achieve around Rs.80-90 crore during FY25.

Susceptibility of profitability to volatile cotton 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.

Presence in the competitive and inherently cyclical industry

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

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

Financial risk profile marked by moderate profitability, leveraged capital structure and weak debt coverage indicators

SSPL has moderate profitability marked by PBIDLT margin of 9.05% in FY24. However, it reported net loss of Rs.1.06 crore in FY24 mainly owing to higher depreciation and interest charges. Gross cash accruals (GCA) remained thin at Rs.0.84 crore during FY24.

SSPL implemented the project with total cost of around Rs.59 crore which was funded from the term loan of Rs.33.50 crore and balance Rs.25.70 (including Rs.15 crore of equity contribution and balance in terms of unsecured loan) from the promoter contribution.

SSPL's capital structure remained leveraged marked by overall gearing of 3.45x as on March 31, 2024. Debt coverage indicators remained weak marked by PBIDLT Interest coverage of 1.16x and total debt to GCA of 26.30 years in FY24.

Key strengths

Experienced promoters

SSPL is promoted by Mr. Trikam Patel, Mr. Sanjay Patel, Mr. Jagdish Patel, Mr. Prakash Patel and Mr. Hasmukhlal Satapara. Promoters of the company are associated with the cotton industry for more than a decade. Presence of more than a decade in the cotton industry has enabled them to develop a strong understanding of market dynamics and established supplier and customer base.

Favourable location of its manufacturing unit with proximity to cotton growing region.

The manufacturing facility of SSPL is located near Surendranagar, Gujarat. Since Gujarat is India's major cotton producing belt, it helps SSPL to easily procure cotton from ginners in surrounding locality and offers SSPL locational advantage in terms of lower logistics expenditure (both on the transportation and storage). It procures raw material i.e. cotton from the players in its vicinity with part of the raw material requirement also being met from its associate namely Ekta Cotton Industries.

Liquidity: Stretched

SSPL has stretched liquidity marked by low gross cash accruals, low cash and bank balance, moderate working capital utilisation and moderate liquidity ratios. SSPL is expected to achieve GCA of Rs.2-3 crore against which it has debt repayment obligation of Rs.1.10 crore during FY25. It has low cash and bank balance of Rs.0.13 crore as on March 31, 2024. Cashflow from operations was Rs.3.51 crore in FY24. Average fund-based working capital utilisation remained moderate at 47% for past eight months ended March 2024. Furthermore, company is in process of enhancing its working capital limits by Rs.4 crore which will provide cushion to its liquidity considering envisaged scale-up of the operations.

Applicable criteria

[Definition of Default](#)

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

[Rating Outlook and Rating Watch](#)

[Manufacturing Companies](#)

[Financial Ratios – Non financial Sector](#)

[Short Term Instruments](#)

[Cotton Textile](#)

About the company and industry

Industry classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Consumer Discretionary	Textiles	Textiles & Apparels	Other Textile Products

Incorporated in February 2021, Smruti Spintex Private Limited (SSPL) is promoted by Mr. Trikam Patel, Mr. Sanjay Patel, Mr. Jagdish Patel, Mr. Prakash Patel and Mr. Hasmukhlal Satapara. Based in Dhrangdhra, Gujarat, the company has set up a spinning mill comprising 16,416 spindles with the capacity of around 5,760 tonne per year as on March 31, 2024. The unit has commenced its operations from October 2023.

Brief Financials (₹ crore)	H1FY24* (Prov.)
Total operating income	43.28
PBILDT	3.92
PAT	-1.06
Overall gearing (times)	3.45
Interest coverage (times)	1.16

Prov.: Provisional; Note: 'the above results are latest financial results available *Company has commenced its operations from October 2023.

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: Annexure-4

Lender details: Annexure-5

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-Term Loan	-	-	-	02/04/2032	33.50	CARE BB-; Stable
Fund-based - LT/ST-Cash Credit	-	-	-	-	6.00	CARE BB-; Stable / CARE A4
Non-fund-based - LT/ST-Bank Guarantee	-	-	-	-	1.00	CARE BB-; Stable / 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 2024-2025	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022
1	Fund-based - LT-Term Loan	LT	33.50	CARE BB-; Stable	-	-	-	-
2	Non-fund-based - LT/ST-Bank Guarantee	LT/ST	1.00	CARE BB-; Stable / CARE A4	-	-	-	-
3	Fund-based - LT/ST-Cash Credit	LT/ST	6.00	CARE BB-; Stable / CARE A4	-	-	-	-

LT: Long term; ST: Short term; LT/ST: Long term/Short term

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

Annexure-4: Complexity level of the various instruments rated

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

Annexure-5: Lender details

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

Note on the 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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About us:

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