

Narayan Spinning Mills Private Limited

September 05, 2024

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long Term Bank Facilities	15.26 (Reduced from 20.33)	CARE BBB-; Stable	Reaffirmed
Long Term / Short Term Bank Facilities	2.50	CARE BBB-; Stable / CARE A3	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The ratings assigned to Narayan Spinning Mills Private Limited (NSMPL) continue to derive strength from experienced and resourceful promoters having diversified business operations, strategic location of being in the cotton ginning hub with easy access to raw material and benefits available to NSMPL under state government policies. The ratings factors in its further improvement in its already comfortable capital structure and debt coverage indicators and adequate liquidity.

The ratings, however, continue to remain constrained on account of its moderate scale of operations and profitability albeit improvement in FY24 (Provisional, FY refers to the period from April 1 to March 31), susceptibility of its profitability to volatile raw material prices and its presence in the highly competitive and inherent cyclical industry.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Growth in the scale of operations to more than Rs.300 crore with improvement in PBILDT margin of more than 12% on sustained basis
- Improvement in its capital structure marked by overall gearing falling below 0.50 times on sustained basis
- Improvement in total debt/ PBILDT to less than 1x

Negative factors

- Deterioration in Total operating income (TOI) falling below Rs.150 crore on a sustained basis.
- Deterioration in its debt coverage indicators marked by PBIDLT interest coverage of less than 2.50x
- Any large size debt funded capex

Analytical approach: Standalone

Outlook: Stable

The outlook on the long-term rating of NSMPL 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 strengths

Experienced and resourceful promoters

NSMPL is promoted by Mr. Jayantilal Patel, Mr. Kuldeep Patel and Mr. Anil Patel who have vast industrial experience as they are associated with various businesses like cotton ginning, solvent extraction, and oil processing since long. Mr. Jayantilal Patel, is also associated with M/s Shakti Oil Mill, has an experience of more than three decades and he looks after production, financial and technical functions of NSMPL. Mr. Anil Patel, is also associated with M/s Narayan Solvex and Narayan Forging and Gears Private Limited has industrial experience of more than a decade, looks after purchase, sales, and administration functions of NSMPL. Mr. Kuldeep Patel is also associated with M/s Narayan Solvex and has around two decades of industrial experience and looks after the overall functions of NSMPL. The other directors of NSMPL also have vast experience in entire cotton value chain.

Location advantage of being in the cotton ginning hub with easy access to raw material

The manufacturing facility of NSMPL is located in Amreli district, Saurashtra region of Gujarat which produces majority of Gujarat's total cotton production. Also, its location proximity to Mundra, Kandla and Pipava ports and easy access to railway lines resulted into lower logistics costs. Most of the associate concerns of the NSMPL are situated at Amreli district in the Saurashtra region of the Gujarat state. This ensures availability of premium quality of raw cotton with lower cost and results in higher operational efficiency to the group.

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

Benefits available under state government policies

NSMPL is eligible for various incentives by the state govt. As per the Gujarat Textile Policy – 2012, NSMPL is also entitled to benefits from Govt. of Gujarat viz. (1) Power tariff subsidy @ Rs.1 per unit in the billed amount of the utility for a period of five years, and (2) Reimbursement of State Goods and Service Tax (SGST) to the extent of 100% of the eligible fixed capital investments in plant and machinery over a period of eight years till 2025 for its phase 1 of the plant and till 2030 for the phase 2 of the plant. NSMPL has booked Rs. 3.37 crore as 'income from subsidies' during FY24 (under the head 'other income') and Rs.3.06 crore during FY23.

Improvement in capital structure and debt coverage indicators

The capital structure of NSMPL marked by its overall gearing has improved over the previous year and remained comfortable at 0.47 times as on March 31, 2024 [PY: 0.67 times] owing to decrease in total debt mainly on account of prepayment of term loans and increase in its net-worth base on account of accretion of profits to reserves. NSMPL has prepaid Rs.8.31 crore during FY24. Overall gearing is expected to further improve in the absence of any planned debt funded major capex. NSMPL's debt coverage indicators improved and remained comfortable as marked by interest coverage ratio of 8.81 times [PY: 4.39 times] and total debt / GCA of 1.81 times [PY: 2.54 times] in year ended on March 31, 2024.

Key weaknesses

Moderate scale of operations and profitability albeit improvement in FY24

NSMPL's scale of operations marked by its TOI increased by ~10% Y-o-Y and remained moderate at Rs.153.94 crore during FY24 as compared to Rs.140.43 crore during FY23 due to revival in demand in overall cotton textile industry. NSMPL's capacity utilization improved and stood at 80% during FY24 (PY: 57%) however, with decline in average realization, TOI increased by 10%. Further, with stabilization of cotton prices and international demand, TOI is expected to remain stable in FY25.

NSMPL's profitability has slightly moderated at 7.59% in FY24 (PY: 7.87%) due to increased power and fuel expenses on account of higher capacity utilization during FY24. Profit margins are not impacted significantly as NSMPL benefitted in power cost due to newly commissioned solar plant of 4.32 MW in September 2022. PAT margin of the company improved to 2.89% in FY24 [PY: 2.00%] on account of decrease in interest expenses.

Susceptibility of profitability to volatile cotton prices

NSMPL'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.

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.

Liquidity: Adequate

NSMPL's liquidity position remained adequate marked by moderate liquidity ratios, low utilization of working capital limits along with moderate cash accruals which adequately cover its debt repayment obligations.

During FY24 NSMPL has done Rs.8.31 crore prepayment of its term debt. Going forward, NSMPL is expected to generate GCA of ~Rs.12-13 crore in FY25-FY27 as against low scheduled debt repayment obligation to the tune of ~Rs.1.78 crore. CFO of the company moderated at Rs.6.72 crore in FY24 (PY:8.58 crore) on account of increase in inventory as on March 31, 2024. It's cash and bank balance stood modest at Rs.1 crore as on March 31, 2024. The average monthly utilization of fund based working capital facilities remained low at ~48% p.a. for the past twelve months ended in June 2024. Operating cycle moderated to 43 days in FY24 [PY: 33 days] on account of increase in inventory holding period during FY24. The current ratio stood at 2.37 times (PY:2.05 times) as on March 31, 2024.

Applicable criteria

[Definition of Default](#)

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

[Rating Outlook and Rating Watch](#)

[Manufacturing Companies](#)

[Financial Ratios – Non financial Sector](#)

[Cotton Textile](#)

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About the company and industry

Industry classification

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

NSMPL (CIN: U17120GJ2012PTC072072) was incorporated by Mr. Jayantilal Patel, Mr. Kuldeep Patel and Mr. Anil Patel in September 2012. NSMPL is engaged in manufacturing of cotton yarn having a counts range of 20s and 40s carded and combed hosiery and spinning cotton yarn at its manufacturing facility located at Mangvopal region in Amreli district of Gujarat with an installed capacity of 33,600 spindles as on March 31, 2024. NSMPL belongs to Narayan Group having presence in textile, oil processing and solvent extraction business for more than two decades. The group consists of six associate concerns namely Narayan Cotgin Corporation, Narayan Solvex, Narayan Agro Seeds, Narayan Oil Mill, Shakti Oil Mill and Narayan Forging and Gears Private Limited which are engaged in the business operations like trading of cotton, cotton seeds and cotton bales, cotton yarn, trading of various agriculture products, oil milling and manufacturing of gears.

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (P)	Q1FY25 (UA)
Total operating income	140.43	153.94	37.15
PBILDT	11.05	11.69	NA
PAT	2.81	4.45	NA
Overall gearing (times)	0.67	0.47	NA
Interest coverage (times)	4.39	8.81	NA

A: Audited; P: Provisional; UA: Unaudited; NA: Not available; Note: 'the above results are latest financial results available'

Status of non-cooperation with previous CRA: Brickworks has reviewed the ratings assigned to the bank facilities of NSMPL under Issuer Not Co-operating Category vide its press release dated December 27, 2023.

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-Cash Credit		-	-	-	8.00	CARE BBB-; Stable
Fund-based - LT-Term Loan		-	-	30/06/2028	7.26	CARE BBB-; Stable
Non-fund-based - LT/ ST-Bank Guarantee		-	-	-	2.50	CARE BBB-; Stable / CARE A3

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	7.26	CARE BBB-; Stable	-	1)CARE BBB-; Stable (04-Sep-23)	1)CARE BBB-; Stable (06-Oct-22)	1)CARE BB+; Positive (05-Nov-21)
2	Fund-based - LT-Cash Credit	LT	8.00	CARE BBB-; Stable	-	1)CARE BBB-; Stable (04-Sep-23)	1)CARE BBB-; Stable (06-Oct-22)	1)CARE BB+; Positive (05-Nov-21)
3	Non-fund-based - LT/ ST-Bank Guarantee	LT/ST	2.50	CARE BBB-; Stable / CARE A3	-	1)CARE BBB-; Stable / CARE A3 (04-Sep-23)	1)CARE BBB-; Stable / CARE A3 (06-Oct-22)	1)CARE BB+; Positive / CARE A4+ (05-Nov-21)

LT: Long 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-Cash Credit	Simple
2	Fund-based - LT-Term Loan	Simple
3	Non-fund-based - LT/ ST-Bank Guarantee	Simple

Annexure-5: Lender detailsTo 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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