Sharmanji Yarns Private Limited (Revised)

February 03, 2025

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	148.00	CARE BB+; Stable; ISSUER NOT COOPERATING*	Rating continues to remain under ISSUER NOT COOPERATING category and Downgraded from CARE BBB+; Stable
Short-term bank facilities	52.00	CARE A4+; ISSUER NOT COOPERATING*	Rating continues to remain under ISSUER NOT COOPERATING category and Downgraded from CARE A2

Details of instruments/facilities in Annexure-1.
*Issuer did not cooperate; based on best available information.

Rationale and key rating drivers

CARE Ratings Limited (CARE Ratings) has been seeking information from Sharmanji Yarns Private Limited (SYPL) to monitor ratings vide e-mail communications dated January 28, 2025, January 29, 2025, January 30, 2025, and numerous phone calls. However, despite our repeated requests, the company has not provided the requisite information for monitoring of ratings. Aligned with the extant SEBI guidelines, CARE Ratings has reviewed the rating based on the best available information which however, in CARE Ratings' opinion is not sufficient to arrive at a fair rating.

Users of this rating (including investors, lenders and public at large) are hence requested to exercise caution while using above rating(s).

Ratings assigned to bank facilities of SYPL have been revised considering non-availability of requisite information due to non-cooperation by SYPL with CARE Ratings efforts to undertake a review of the rating outstanding. CARE Ratings views information availability risk as a key factor in its assessment of credit risk.

Rating sensitivities: Not applicable

Analytical approach: Standalone

Outlook: Stable

Detailed description of key rating drivers:

At the time of last rating on August 07, 2024, the following were the rating weaknesses and strengths:

Key strengths

Moderately large scale of operations supported by locational advantage and diversified product profile

The company with its enhanced capacity of 1,71,888 spindles operates at a moderately large scale of operations driven by the locational advantage it enjoys in the yarn cluster of Ludhiana, Punjab. Several benefits such as supplier proximity, availability of skilled workforce at fairly cheaper rates, easy and adequate accessibility to cotton and adequate power and transport infrastructure has contributed to factors such as cost savings, operational efficiency, and potential for growth. Thereby, increasing SYPL's estimated turnover to ₹1103 crore in FY23 (~20% increase y-o-y basis) from ₹919 crore in FY22 despite moderation in the demand environment. The company's product portfolio is moderately diversified and includes cotton yarn, polyester-cotton yarn, and polyester yarn. SYPL's customers are geographically concentrated, small/mid-sized enterprises in their scale of operations with major demand for polyester-cotton yarn (estimated ~72% contributor to the total revenue in FY23) followed by cotton yarn. Therefore, the total revenue is largely led by domestic demand as the company has a strong hold over this derived from extensive experience of promoters in the same field. The company takes up export orders based only upon the higher product pricing providing higher profitability prospects. In FY22, the global demand scenario was profitable with favourable cotton yarn prices, hence SYPL had a larger export share compared to FY23 where weaker prices and sluggish global demand, moderated the company's exports.

Experience of promoters in the textile industry

SYPL's promoters were initially involved in trading yarn in Ludhiana and other nearby areas through their related firms such as J. S. Woolen Mills and Sharman Traders. Later, Ashu Jain and his late brother, Sunny Jain, decided to venture in manufacturing yarns by setting up Spinning Unit under SYPL, since then operations have almost entirely been promoter-driven who have ~15

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

years' experience of yarn manufacturing, though the total experience in the yarn industry have been of ~4.5 decades. This experience has given promoters a deep understanding of the industry dynamics. The promoters have developed healthy relationships with the customers and suppliers over the years that has secured repeat orders and has partially mitigated the risk associated with fluctuating sales or unexpected revenue drops and consistency in the supply chain and cost savings through discounts.

Comfortable financial risk profile and debt coverage indicators with prepayment of term debt

With gradual rise in net-worth and repayment of term loans, the company's overall gearing has improved from 0.46x in FY21, to 0.43x in FY22. For FY23, the overall gearing is estimated to be at 0.33x. The company has also fully repaid its term loan which significantly supported its solvency position in the current downturn in the industry. The debt coverage indicators also stood comfortable with estimated total debt to gross cash accrual (TD/GCA) at 2.50x in FY23 against 1.06x in FY22 and estimated interest coverage at ~9.50x in FY23 against 37.08x in FY22. The debt coverage metrics are expected to improve in the medium term, with the new capacity commercialised and to generate cashflows with no major debt-funded capex envisaged till the demand scenario improves.

Key weaknesses

Moderate operating profitability susceptible to volatility in the supply demand dynamics of the industry

SYPL operates in an inherently volatile industry where the supply and demand scenario depend on factors such as seasonal availability, yield, raw material prices, cyclicality, and global market scenario. Hence, profitability is adversely affected by movement in such trends. In FY22, the surge in global demand driven by post covid revival significantly boosted the profitability of companies in the industry. This sharp rise is also attributable to the low-cost inventory held by the company from the last procurement season. Conversely, in FY23 the high starting base of raw cotton prices and subdued global demand induced by Russia-Ukraine war negatively impacted the profitability of yarn spinners as the domestic market faced cost pressures and subdued demand.

Highly competitive and fragmented industry

The yarn industry is a combination of organised and many unorganised (small and medium) companies which leads to high competition. The commoditised cotton yarn also limits pricing ability of the industry players to an extent.

Lack of integration in operations

SYPL is present only at one stage of the value chain, including spinning (fibre-to-yarn), and to that extent, it is unfavourably placed against other integrated players. By having multiple processes of the manufacturing value chain, in-house, companies are able to save money and improve their profit margins through value addition at multiple stages. The company whose upstream and downstream capacities are comparable obtains full advantages of manufacturing process integration.

Working capital intensive operations

SYPL's operations are raw material (cotton and polyester fibre) intensive with the material cost constituting to ~65-75% of the total operating income (TOI). SYPL has an inventory holding period of 5-6 months and extends credit period of 40-60 days to its customers, however, it receives negligible credit support from its suppliers. Thereby, SYPL's working capital cycle is elongated. The working capital requirements are almost entirely funded by internal cash accruals and external debt. The company's average operating cycle period ranged between 107 days – 137 days in FY22 and FY23.

Liquidity: Not Available

Applicable criteria

Definition of Default
Liquidity Analysis of Non-financial sector entities
Policy in respect of non-cooperation by issuers
Rating Outlook and Rating Watch
Manufacturing Companies
Financial Ratios – Non financial Sector
Cotton Textile
Short Term Instruments
Manmade Yarn-Methodology

About the company and industry

Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Consumer discretionary	Textiles	Textiles and apparels	Other textile products

SYPL was established in 2002 and has been led by Ashu Jain and his father, Jatinder Kumar Jain. SYPL's day-to-day operations are almost entirely promoter driven. Currently, SYPL has a production capacity of 171,888 spindles, situated in Ludhiana. The company's product portfolio includes cotton yarn, polyester-cotton (PC) yarn and polyester yarn, where the major contributor to the total revenue is polyester-cotton yarn followed by cotton yarn, depending upon the production of yarn's 8-10% revenue is accounted from the scrap waste sale.

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)
Total operating income	1,104.49	979.23
PBILDT	75.28	64.19
PAT	50.48	23.80
Overall gearing (times)	0.33	0.64
Interest coverage (times)	6.81	6.60

A: Audited UA: Unaudited; Note: these are latest available financial results

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable
Rating history for last three years: Annexure-2

Detailed explanation of covenants of rated instrument / facility: Annexure-3

Complexity level of 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 and Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	148.00	CARE BB+; Stable; ISSUER NOT COOPERATING*
Fund-based - ST-Packing Credit in Foreign Currency		-	-	-	52.00	CARE A4+; ISSUER NOT COOPERATING*

*Issuer did not cooperate; based on best available information.

Annexure-2: Rating history for 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-Cash Credit	LT	148.00	CARE BB+; Stable; ISSUER NOT COOPERATING*	1)CARE BBB+; Stable; ISSUER NOT COOPERATING* (07-Aug-24)	1)CARE A-; Stable (07-Jul-23) 2)CARE A-; Stable; ISSUER NOT COOPERATING* (06-Apr-23)	1)CARE A; Stable (13-Sep-22)	-
2	Fund-based - ST-Packing Credit in Foreign Currency	ST	52.00	CARE A4+; ISSUER NOT COOPERATING*	1)CARE A2; ISSUER NOT COOPERATING* (07-Aug-24)	1)CARE A2+ (07-Jul-23) 2)CARE A2+; ISSUER NOT COOPERATING* (06-Apr-23)	1)CARE A2+ (13-Sep-22)	-
3	Fund-based - LT-Term Loan	LT	-	-	-	1)Withdrawn (07-Jul-23) 2)CARE A-; Stable; ISSUER NOT COOPERATING* (06-Apr-23)	1)CARE A; Stable (13-Sep-22)	-

*Issuer did not cooperate; based on best available information.
LT: Long term; ST: Short term; LT/ST: Long term/Short term

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

Annexure-4: Complexity level of instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Cash Credit	Simple
2	Fund-based - ST-Packing Credit in Foreign Currency	Simple

Annexure-5: Lender details

To view lender-wise details of bank facilities please click here

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

Contact us

Media Contact	Analytical Contacts
Mradul Mishra Director **CARE Ratings Limited** Phone: +91-22-6754 3596 E-mail: mradul.mishra@careedge.in **Relationship Contact** Ankur Sachdeva Senior Director **CARE Ratings Limited** Phone: 912267543444 E-mail: Ankur.sachdeva@careedge.in	Ravleen Sethi Director **CARE Ratings Limited** Phone: 91-120-4452016 E-mail: ravleen.sethi@careedge.in Bhawna Rustagi Assistant Director **CARE Ratings Limited** Phone: 91-120-4452045 E-mail: Bhawna.Rustagi@careedge.in Sidharth Wadhwa Analyst **CARE Ratings Limited** E-mail: Sidharth.wadhwa@careedge.in

About us:
Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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