

Salona Cotspin Limited

March 12, 2025

Facilities	Amount (₹ crore)	Rating ¹	Rating Action
Long-term bank facilities	185.02 (Enhanced from 143.05)	CARE BBB; Negative	Reaffirmed; Outlook revised from Stable
Short-term bank facilities	100.50 (Reduced from 126.95)	CARE A3	Downgraded from CARE A3+

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

Revision in the short-term rating assigned to bank facilities of Salona Cotspin Limited (SCL) factors in the moderation in interest coverage and debt protection metrics following the debt-funded capex towards acquisition of a spinning unit. The acquired unit is yet to scale up operations while the loan repayments have already commenced. This, coupled with elongated collection period and higher working capital borrowings is expected to have adverse impact on liquidity in the near term.

Ratings continue to derive strength from extensive experiences of the promoters in textile industry, and long track record of operations. Ratings also derive strength from the established relationship with its customers, diversified customer profile in both export and domestic markets and benefits derived from captive power consumption. However, ratings are constrained by moderate capital structure, profitability inherent to the volatility of the raw material prices, and exposure to foreign currency rate fluctuation.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Ability to increase operating income over ₹800 crore with profit before interest, lease rentals, depreciation and taxation (PBILDT) margin above 6% on a sustained basis.
- Ability to improve overall gearing below 1.2x.

Negative factors

- Inability to scale up operations of new unit as envisaged.
- Moderation in interest coverage below 1.8x on a sustained basis.
- Any stretch in the working capital cycle more than 150 days.

Analytical approach: Standalone

Outlook: Negative

The 'Negative' outlook reflects that the company's debt profile is expected to be leveraged in medium term more than envisaged owing to the debt-funded acquisition of new unit and delayed commencement of commercial operation of the same. The outlook shall be revised to 'Stable' in case the company generates adequate accruals from the incremental capacities added and improves the capital structure going forward.

Detailed description of key rating drivers:

Key strengths

Vast experience of promoters in the textile industry

Shyamlal Agarwala, Managing Director and Chairman, has over five decades of experience in textile industry, especially in commodity trading and procurement. He was ex-president of Coimbatore Yarn Merchants & Brokers Association. Manoj Kumar Jhajhariya, son of Shyamlal Agarwala, is the Joint Managing Director of the company and has around three decades of experience in the textile industry. He looks after day-to-day operations in the company. Raghav Agarwal, Director and son of Manoj Kumar Jhajheria, is the third-generation entrepreneur having over six years of experience in the textile sector, and takes care of international marketing and promotional activities.

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

Long-established operational track record

SCL was incorporated in 1994. As on December 31, 2024, SCL's installed capacity is 25,488 spindles and 10 knitting machines. The company is also involved into trading multiple types of yarn and fabrics (both cotton and man-made) whose contribution increased from 48% in FY23 to 65% in FY24. The total operating income (TOI) improved from ₹486.91 crore in FY23 to ₹722.26 crore in FY24 aided by improved contribution from trading segment. The company booked income of ₹514.36 crore with profit before interest, lease rentals, depreciation and taxation (PBILDT) margin of 5.05% in 9mFY25.

Benefits derived from captive power consumption

SCL has installed capacities of 4 MW of ground solar, 2.40 MW of rooftop solar, and windmills of capacity 4.45 MW, which are commissioned over the recent past for captive power consumption. The above-mentioned sources contribute to ~70% of SCL's power requirements.

Geographically diversified customer profile

The company had presence in both export and domestic markets with exports contributing to 83% (PY: 76%) of income in FY24. SCL exports yarn and fabric to customers across countries including Bangladesh, Vietnam, Sri Lanka, and China, among others, which are entirely LC-backed orders. The top five customers contributed 16% (PY: 22%) of TOI in FY24, mitigating the client concentration risk.

Key weaknesses

Moderate capital structure and debt protection metrics due to debt-funded acquisition of new spinning unit

SCL acquired a non-operational spinning unit with 18,000 spindles for ₹48.0 crore, funded by ₹36.0 crore in debt and the rest through internal accruals. Initially, the commercial operations was expected to start by October 2024, however got postponed to April 2025. The delay in commencement of operation has impacted SCL's financial metrics, with overall gearing increasing to 3.22x as on March 31, 2024, from 2.12x as on March 31, 2023. The debt coverage metrics moderated with total debt to gross cash accruals (TD/GCA) at 18.48x (PY: 6.67x). The interest coverage ratio also declined to 1.99x in FY24 from 3.70x in FY23. The company's ability to start commercial production without further delays and achieve the expected productivity levels remains a key credit monitorable.

Exposure to volatility of raw materials and forex rates

The profitability of textile mills depends largely on the cotton and cotton yarn prices, which are governed by various factors, such as area under cultivation, monsoon, and international demand-supply situation, among others. The cotton yarn being the major raw material of knitting mills, movement in cotton prices without parallel movement in yarn prices impact the profitability of spinning mills. The cotton textile industry is inherently prone to the volatility in cotton and yarn prices. In the last one year, there has been an unprecedented increase in domestic cotton price. CARE Ratings Limited (CARE Ratings) notes that with all exports denominated in USD and rupee depreciating against US dollar for the past few years, the company is exposed to the foreign exchange risk.

Liquidity: Adequate

The liquidity is adequate characterised by the sufficient cash accruals in FY25 and moderate cash balance of ₹0.06 crore as on March 31, 2024, against repayment obligation in FY25. The collection period remained elongated at 71 days in FY24 and 77 days in 9mFY25 despite improved from 89 days in FY23. Operating cycle stood at 92 days in FY24 (PY: 122 days). The average working capital utilisation of fund-based limits stood at 68.14%, while that of the bill discounting (FDBD) stood at 72.7% in the past 12 months ending January 2025. The current ratio stood comfortable at 1.23x as on March 31, 2024 (PY: 1.37x).

Assumptions/Covenants: Not applicable

Environment, social, and governance (ESG) risks: Not applicable

Applicable criteria

[Definition of Default](#)

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

[Rating Outlook and Rating Watch](#)

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[Financial Ratios – Non financial Sector](#)

[Cotton Textile](#)

[Short Term Instruments](#)

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About the company and industry

Industry classification

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

SCL was incorporated in 1994 by Shyamlal Agarwala, the Chairman. The day-to-day operations are managed by Manoj Kumar Jhajheria, the Joint Managing Director. The company is engaged in manufacturing and trading yarn and grey fabrics. The company has installed capacities of 43488 spindles and 10 knitting machines as on date.

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)	9mFY25 (UA)
Total operating income	486.91	722.26	514.36
PBILDT	34.83	30.25	25.99
PAT	17.55	6.14	6.05
Overall gearing (times)	2.12	3.22	3.04
Interest coverage (times)	3.70	1.99	1.89

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

Status of non-cooperation with previous CRA: India Ratings has reviewed the rating of SCL and classified it into 'issuer not cooperating' category based on the best available information vide PR dated July 14, 2024. The reasons provided by India Ratings are non-furnishing of information for monitoring of rating.

Acuite has reviewed the rating of SCL and classified it into 'issuer not cooperating' category based on the best available information vide PR dated June 07, 2024. The reasons provided by Acuite are non-furnishing of information for monitoring of rating.

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		-	-	-	104.50	CARE BBB; Negative
Fund-based - LT-Term Loan		-	-	March 2037	80.52	CARE BBB; Negative
Fund-based - ST-EPC/PSC		-	-	-	8.50	CARE A3
Fund-based - ST-Foreign Bill Discounting		-	-	-	92.00	CARE A3

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-Term Loan	LT	80.52	CARE BBB; Negative	-	1)CARE BBB; Stable (28-Dec-23)	-	-
2	Fund-based - LT-Cash Credit	LT	104.50	CARE BBB; Negative	-	1)CARE BBB; Stable (28-Dec-23)	-	-
3	Fund-based - ST-EPC/PSC	ST	8.50	CARE A3	-	1)CARE A3+ (28-Dec-23)	-	-
4	Fund-based - ST-Foreign Bill Discounting	ST	92.00	CARE A3	-	1)CARE A3+ (28-Dec-23)	-	-

LT: Long term; ST: 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 - LT-Term Loan	Simple
3	Fund-based - ST-EPC/PSC	Simple
4	Fund-based - ST-Foreign Bill Discounting	Simple

Annexure-5: Lender detailsTo 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.

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