

## Shree Hari Spintex Limited

May 27, 2019

### Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Long term Bank Facilities	16.92	<b>CARE B; Stable; ISSUER NOT COOPERATING* (Single B; Outlook: Stable; ISSUER NOT COOPERATING*)</b>	Issuer not cooperating; Revised from CARE B+; Stable; Issuer not cooperating (Single B Plus; Outlook: Stable; ISSUER NOT COOPERATING) on the basis of best available information
Short term Bank Facilities	0.50	<b>CARE A4; ISSUER NOT COOPERATING* (A Four; ISSUER NOT COOPERATING*)</b>	Issuer not cooperating; Based on best available information
<b>Total</b>	<b>17.42 (Rs. Seventeen crore and Forty two lakh only)</b>		

*Details of instruments/facilities in Annexure-1*

### Detailed Rationale & Key Rating Drivers

CARE had, vide its press release dated March 08, 2018 placed the rating(s) of Shree Hari Spintex Limited. (SHSL) under the 'issuer non-cooperating' category as SHSL had failed to provide information for monitoring of the rating. SHSL continues to be non-cooperative despite repeated requests for submission of information through e-mails, phone calls and a letter dated May 20, 2019. In line with the extant SEBI guidelines, CARE has reviewed the rating on the basis of the best available information which however, in CARE's opinion is not sufficient to arrive at a fair rating.

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

The ratings have been revised on account of decline in profitability margins of the company in FY18 (Audited; refers to the period April 01 to March 31) and deterioration in capital structure. The ratings are further constrained by working capital intensive nature of operations, susceptibility of margins to fluctuation in raw material price and highly fragmented market resulting in intense competition from the unorganized players. These rating constraints are, however, partially offset by experienced promoters and steady scale up of operations of the company.

### Detailed description of the key rating drivers

#### Key Rating Weaknesses

**Declining profitability margins:** The PBILDT margins of the SHSL declined in FY18 to 6.50% from 8.36% in FY17. The PAT margins continue to remain low and declined to 0.07% in FY18 (PY: 0.14%).

**Leveraged capital structure:** The overall gearing ratio of the company deteriorated on a year-on-year basis to 2.20x as on March 31, 2018 from 1.38x, as on March 31, 2017 on account of higher debt outstanding at the end of the year. This was on account of new term loans availed by the company in FY18 and higher working capital borrowings outstanding at the end of the year.

**Working capital intensive nature of operations:** The operations of the company are working capital intensive in nature. The operating cycle of the company stood elongated at ~87 days, as on March 31, 2018 (PY: 88 days).

**Susceptibility of margins to raw material price:** The operations of SHSL are raw material intensive in nature with the raw material cost constituting ~81% of the total income in FY18. Cotton (one of the main raw material) being an agricultural product, its demand supply situation depends on various natural conditions like monsoons, drought and floods. Its price is very volatile depending on the demand-supply situation in the global markets. This exposes the margins to any adverse movement in the raw material prices.

<sup>2</sup>Complete definitions of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and in other CARE publications

\*Issuer did not cooperate; Based on best available information

**Highly fragmented market resulting in intense competition from the unorganized players:** The industry is highly fragmented and dominated by a large number of independent and small scale unorganized players leading to high competition among the industry players. Smaller companies in general are more vulnerable to intense competition due to their limited pricing flexibility, which constrains their profitability as compared to larger companies who have better efficiencies and pricing power considering their scale of operations.

#### Key Rating Strengths

**Experienced promoters:** SHSL is promoted by Mr Rakesh Kumar, who has an industry experience of around 20 years through various other group entities engaged in the textile, rice and edible oil industries.

**Steady scale-up of operation:** The operating income of the company grew by ~23% in FY18 and stood at Rs. 96.54 cr. (PY: Rs. 78.19 cr.).

**Analytical approach:** Standalone

#### Applicable Criteria

[Policy in respect of Non-cooperation by issuer](#)

[Criteria on assigning Outlook to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Financial ratios – Non-Financial Sector](#)

[Criteria for short term instruments](#)

[CARE's methodology for Cotton Yarn manufacturing Companies](#)

#### About the Company

Incorporated in 2007, Shree Hari Spintex Limited (SHSL) is promoted by Mr Rakesh Kumar and is engaged in the production of cotton yarn at its manufacturing facility located at Maur Mandi, Distt. Bathinda, Punjab. The operations commenced in FY08, with FY09 as the first full year of operations for the company. The products manufactured by the company find its application in the March 31, 2016, for the manufacturing of cotton yarn for counts ranging from 16s to 34s.

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	78.19	96.54
PBILDT	6.54	6.28
PAT	0.14	0.07
Overall gearing (times)	1.38	2.20
Interest coverage (times)	1.45	1.39

A: Audited, NM; Not meaningful

**Status of non-cooperation with previous CRA:** Not Applicable

**Any other information:** Not Applicable

**Rating History for last three years:** Please refer Annexure-2

#### Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	May-2019	3.92	CARE B; Stable; ISSUER NOT COOPERATING* Issuer not cooperating; Revised from CARE B+; Stable; ISSUER NOT COOPERATING* on the basis of best available information
Fund-based - LT-Cash Credit	-	-	-	13.00	CARE B; Stable; ISSUER NOT COOPERATING* Issuer not cooperating; Revised from CARE B+; Stable; ISSUER

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
					NOT COOPERATING* on the basis of best available information
Non-fund-based - ST-Bank Guarantees	-	-	-	0.50	CARE A4; ISSUER NOT COOPERATING* Issuer not cooperating; Based on best available information

\*Issuer did not cooperate; Based on best available information

#### 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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - LT-Term Loan	LT	3.92	CARE B; Stable; ISSUER NOT COOPERATING* Issuer not cooperating; Revised from CARE B+; Stable; ISSUER NOT COOPERATING* on the basis of best available information	-	-	1)CARE B+; Stable; ISSUER NOT COOPERATING* (08-Mar-18)	1)CARE BB-; Stable (03-Feb-17)
2.	Fund-based - LT-Cash Credit	LT	13.00	CARE B; Stable; ISSUER NOT COOPERATING* Issuer not cooperating; Revised from CARE B+; Stable; ISSUER NOT COOPERATING* on the basis of best available information	-	-	1)CARE B+; Stable; ISSUER NOT COOPERATING* (08-Mar-18)	1)CARE BB-; Stable (03-Feb-17)
3.	Non-fund-based - ST-Bank Guarantees	ST	0.50	CARE A4; ISSUER NOT COOPERATING* Issuer not cooperating; Based on best available information	-	-	1)CARE A4; ISSUER NOT COOPERATING* (08-Mar-18)	1)CARE A4 (03-Feb-17)

\*Issuer did not cooperate; Based on best available information

**Note on complexity levels of the rated instrument:** CARE has classified instruments rated by it on the basis of complexity. This classification is available at [www.careratings.com](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

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### About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

#### Disclaimer

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In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

**\*\*For detailed Rationale Report and subscription information, please contact us at [www.careratings.com](http://www.careratings.com)**