

## Tulip Cotspin Private Limited

February 20, 2019

### Ratings

Facilities	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Long term Bank Facilities	39.25	<b>CARE BB-; Stable; ISSUER NOT COOPERATING* (Double B Minus; Outlook: Stable; ISSUER NOT COOPERATING*)</b>	Issuer not cooperating; Based on best available information
Short term Bank Facilities	3.00	<b>CARE A4; ISSUER NOT COOPERATING* (A Four; ISSUER NOT COOPERATING*)</b>	Issuer not cooperating; Based on best available information
<b>Total Facilities</b>	<b>42.25 (Rupees Forty Two crore and Twenty Five lakh only)</b>		

*Details of instruments/facilities in Annexure-1*

### Detailed Rationale & Key Rating Drivers

CARE has been seeking information from Tulip Cotspin Private Limited (TCPL) to monitor the ratings vide e-mail communications/letters dated October 22, 2018, November 14, 2018, December 5, 2018, December 11, 2018, December 18, 2018, December 31, 2018, February 4, 2019 and numerous phone calls. However, despite our repeated requests, the company has not provided the requisite information for monitoring the ratings. In line with the extant SEBI guidelines, CARE has reviewed the rating on the basis of the publicly available information which however, in CARE's opinion is not sufficient to arrive at a fair rating. The ratings on TCPL's bank facilities will now be denoted as CARE BB-;Stable / CARE A4; ISSUER NOT COOPERATING\*

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

The ratings take into account its financial risk profile marked by its moderate scale of operations, leveraged capital structure, moderate debt coverage indicators and moderate liquidity position in FY18 (refers to the period April 1 to March 31). The ratings further remained constrained by susceptibility of profit margins to volatility in raw material price and seasonality associated with cotton industry along with presence in highly fragmented and competitive cotton yarn industry. The ratings, however, take into account experienced directors, strategically located within cotton-producing belt of Gujarat along with eligibility for fiscal benefits from the Government. TCPL's ability to increase its scale of operations and profitability with improvement in its capital structure amidst the high competition in the segment are the key rating sensitivities.

### Detailed description of the key rating drivers

*At the time of last rating on December 6, 2017 the following were the rating strengths and weaknesses(updated for the Information available from client)*

#### Key Rating Weaknesses

##### Moderate scale of operations along with net loss

During FY18, which is the first year of operations for the company, TCPL has achieved TOI of Rs.67.45 crore. Though PBILDT margin stood healthy at 19.39% during FY18, net loss remained at Rs.1.86 crore during FY18 on account of generation of differed tax liabilities of around 2.12 crore during FY18.

##### Moderate capital structure and debt coverage indicators

Capital structure of the company remained leveraged marked by overall gearing ratio of 1.73 times as on March 31, 2018 due to lower tangible net worth as compared to total debt.

Debt coverage indicators remained moderate as marked by total debt GCA ratio of the company remained at 4.28 times as on March 31, 2018. Further, interest coverage ratio of TCPL remained at 3.21x during FY18.

##### Moderate liquidity position

As on March 31, 2018, current ratio of the company stood at 2.01x on account of higher other current assets as on balance sheet date. Further, quick ratio stood at 1.48 times as on March 31, 2018.

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and other CARE publications

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

### Susceptibility of profit margins to volatility in raw material price and seasonality associated with cotton industry

Operations of cotton business are seasonal in nature, as sowing season is done during March to July and harvesting cycle (peak season) is spread from November to February every year. Prices of raw material i.e. cotton bales are highly volatile in nature and depend upon factors like monsoon condition, area under production, yield for the year, international demand supply scenario, export policy decided by government and inventory carried forward of last year. This in turn also affects demand for cotton yarn.

### Presence in highly fragmented and competitive cotton yarn industry

TCPL operates in highly fragmented and unorganized market of spinning industry marked by presence of large number of small-sized players. The industry is characterized by low entry barrier due to easy access to customers and suppliers along with raw material from nearby location.

### Key Rating Strengths

#### Experienced directors

All the directors of the company are holding average experience of more than one and a half decades in same line of business. Due to the vast experience in cotton processing industry, the directors have developed good relationship with customers.

#### Strategically located within cotton-producing belt of Gujarat

TCPL's plant is located in cotton producing belt of Gujarat region which is the largest producer of raw cotton in India. TCPL's presence in cotton producing region results in benefit derived from lower logistics expenditure (both on transportation and storage), easy availability and procurement of raw materials at effective price and consistent demand for finished goods resulting in sustainable revenue visibility.

#### Fiscal benefits from the Government

TCPL is eligible to receive various fiscal benefits from government in terms of capital subsidy, interest subsidy, power tariff subsidy and other benefits under Technology Up-gradation Funds (TUF) scheme.

**Analytical approach:** Standalone

#### Applicable Criteria

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

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

[CARE's methodology for cotton yarn Industry](#)

[Rating Methodology-Manufacturing Companies](#)

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

[Criteria for Short Term Instruments](#)

#### About the company

Amreli (Gujarat)-based, TCPL is a private limited company incorporated during July 2015 by Mr. Maganbhai Parvadiya, Mr. Chandubhai Parvadiya, Mr. Kamleshbhai Bokarvadiya, Mr. Kantilal Bokarvadiya, Mr. Jagdishbhai Finava, Mr. Pravinbhai Finava and Mrs. Gitaben Finava. TCPL is into business of cotton spinning and operates with an installed capacity of 4889 MTPA of cotton yarn with 30s count. The company started its operations from April 2017. Promoters of TCPL are also directors/ promoters in their group entities namely Gujarat Ginning & Oil Industries, Gujarat Hy-Spin Private Limited, Shree Umiya Cotton Ginning & Pressing Private Limited, Vinayak Cottex, Everest Cotton, Avani Enterprise, Red Corner, Shree Umiya Trading Co, Bajrang Cotton, Anjani Industries and Ramdoot Industries.

Brief Financials (Rs. crore)	FY18 (A)
Total operating income	67.45
PBILDT	13.08
PAT	-1.86
Overall gearing (times)	1.73
Interest coverage (times)	3.21

A: Audited

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

**Any other information:** Not Applicable

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

**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.

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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.

**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-Cash Credit	-	-	-	5.00	CARE BB-; Stable; ISSUER NOT COOPERATING Issuer not cooperating; Based on best available information
Non-fund-based - ST-Bank Guarantees	-	-	-	3.00	CARE A4; ISSUER NOT COOPERATING Issuer not cooperating; Based on best available information
Fund-based - LT-Term Loan	-	-	March, 2026	34.25	CARE BB-; Stable; ISSUER NOT COOPERATING Issuer not cooperating; 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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT-Cash Credit	LT	5.00	CARE BB-; Stable; ISSUER NOT COOPERATING Issuer not cooperating; Based on best available information	-	1)CARE BB-; Stable (24-Nov-17)	1)CARE B+ (21-Sep-16)	-
2.	Non-fund-based - ST-Bank Guarantees	ST	3.00	CARE A4; ISSUER NOT COOPERATING Issuer not cooperating; Based on best available information	-	1)CARE A4 (24-Nov-17)	1)CARE A4 (21-Sep-16)	-
3.	Fund-based - LT-Term Loan	LT	34.25	CARE BB-; Stable; ISSUER NOT COOPERATING Issuer not cooperating; Based on best available information	-	1)CARE BB-; Stable (24-Nov-17)	1)CARE B+ (21-Sep-16)	-

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