

Tulip Cotspin Private Limited

March 16, 2020

Ratings

Facilities/Instruments	Amount (Rs. crore)	Ratings ¹	Rating Action
Long term Bank Facilities	32.57	CARE BB; Stable (Double B; Outlook: Stable)	Reaffirmed
Short term Bank Facilities	3.00	CARE A4+ (A Four Plus)	Reaffirmed
Total Facilities	35.57 (Rupees Thirty Five crore and Fifty Seven lakhs only)		

Details of instruments/facilities in Annexure-1
Detailed Rationale & Key Rating Drivers

The rating assigned to the bank facilities of Tulip Cotspin Private Limited (TCPL) are constrained on account of its moderate scale of operations albeit with improvement in profitability, moderate capital structure and debt coverage indicators. The rating is further constrained on account of susceptibility of profitability to volatile raw material prices and seasonality associated with cotton industry along with presence in highly fragmented and competitive cotton yarn industry.

The ratings, however, derives strength from experienced directors, strategically located within cotton-producing belt of Gujarat along with eligibility for fiscal benefits from the Government.

Key Rating Sensitivities
Positive factors

- Sustained growth in Total operating income (TOI) of more than 30% with PBILDT margin of more than 18% and PAT margin of more than 3.50% on sustained basis
- Improvement in capital structure marked by below unity overall gearing on sustained basis

Negative factors

- Decline in scale of operations by more than 20% on sustained basis along with significant dip in gross cash accruals (GCA) by 35%
- Deterioration in gearing ratio of over 3.00 times along with a deterioration in overall liquidity profile

Detailed description of key rating drivers
Key Rating Weaknesses
Moderate scale of operations albeit with improvement in profitability

During FY19 (A), TCPL's total operating income grew by 33% and stood at Rs.89.64 crore as against Rs.67.45 crore in FY18 mainly on account of increase in demand from existing customers and addition of new customers. Operating profitability declined during FY19 and company reported PBLIDT margin of 15.93% as against 19.39% during FY18. Lower interest outgo on account of receipt of interest subsidy led to improvement in PAT margins from net losses during FY18 to 2.87% during FY19. Gross cash accruals stood at Rs.9.62 crore during FY19 as against Rs.9.03 crore during FY18.

Moderate capital structure and debt coverage indicators

As on March 31, 2019 (A), capital structure of TCPL has improved marginally and stood moderate marked by an overall gearing ratio of 1.63 times as against 1.73 times as on March 31, 2018.

Further, total debt to gross cash accruals (GCA) ratio although improved but stood moderate at 3.47 times during FY19 as against 4.28 during FY18 on account of decline in total debt level along with increase in GCA level. During FY19, Interest coverage ratio stood at 3.43 times as against 3.21 times in FY18.

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.

¹Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications

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.

Liquidity Analysis: Adequate

Liquidity position remained adequate marked by current ratio of 3.35 times as on March 31, 2019 as against 2.01 times as on March 31, 2018. The operating cycle also stood comfortable at 40 days during FY19 as against 21 days during FY18. Average working capital utilization remained at 80% for trailing 12 month period ended February 2020. Cash flow from operating activities stood comfortable at Rs.16.17 crore during FY19 as against Rs.2.01 crore during FY18 due to realization of current loans & advances. Further, GCA remained adequate at Rs.9.62 crore during FY19 as against scheduled term loan repayment of Rs.3.60 crore during FY20.

Analytical approach: Standalone

Applicable Criteria

[Criteria on assigning outlook to credit ratings](#)

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

[Criteria for Short Term Instruments](#)

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

[Rating Methodology - Manufacturing Companies](#)

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 as on March 31, 2019. The company started its operations from April 2017. Promoters of TCPL are also directors/ promoters in their group entities namely Gujarat Ginning & Oil Industries (rated CARE B+; Stable; Issuer Not Cooperating), Gujarat Hy-Spin 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)	FY19 (A)
Total operating income	67.45	89.64
PBILDT	13.08	14.28
PAT	-1.86	2.58
Overall gearing (times)	1.73	1.63
Interest coverage (times)	3.21	3.43

A: Audited.

As per provisional 11MFY20 results, TCPL has registered a TOI of Rs.75.00 crore.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History (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-Cash Credit	-	-	-	5.00	CARE BB; Stable
Non-fund-based - ST-Bank Guarantees	-	-	-	3.00	CARE A4+
Fund-based - LT-Term Loan	-	-	March 2025	27.57	CARE BB; Stable

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-Cash Credit	LT	5.00	CARE BB; Stable	1)CARE BB; Stable (07-Jun-19)	1)CARE BB-; Stable; ISSUER NOT COOPERATING* (20-Feb-19)	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+	1)CARE A4+ (07-Jun-19)	1)CARE A4; ISSUER NOT COOPERATING* (20-Feb-19)	1)CARE A4 (24-Nov-17)	1)CARE A4 (21-Sep-16)
3.	Fund-based - LT-Term Loan	LT	27.57	CARE BB; Stable	1)CARE BB; Stable (07-Jun-19)	1)CARE BB-; Stable; ISSUER NOT COOPERATING* (20-Feb-19)	1)CARE BB-; Stable (24-Nov-17)	1)CARE B+ (21-Sep-16)

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. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

Contact us**Media Contact**

Name: Mr. Mradul Mishra

Contact no. – +91-22-6837 4424

Email ID – mradul.mishra@careratings.com**Analyst Contact**

Name - Ms. Shreeda Shah

Contact no.- (079) 40265636

Email ID- shreeda.shah@careratings.com**Relationship Contact**

Name: Mr. Deepak Prajapati

Contact no. : (079) 40265656

Email ID- deepak.prajapati@careratings.com**About CARE Ratings:**

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