



## RATING RATIONALE

16 Jan 2020

### Arihant Syncotex Mills Pvt Ltd.

**Brickwork Ratings reaffirms the ratings for the Bank Loan Facilities of Rs. 40 Crores of Arihant Syncotex Mills Pvt Ltd.**

#### Particulars

Facility	Amount (Rs. Crs)		Tenure	Rating	
	Previous	Present		Previous (April 2018)	Present
Fund Based	40.00	40.00	Long Term	<b>BWR BB</b> (Stable)	<b>BWR BB</b> (Stable) <b>Reaffirmed</b>
<b>Total</b>	<b>40.00</b>	<b>40.00</b>	<b>Rupees Forty Crores Only</b>		

\*Please refer to BWR website [www.brickworkratings.com/](http://www.brickworkratings.com/) for definition of the ratings

\*\* Details of Bank facilities is provided in Annexure-I

#### RATING ACTION / OUTLOOK

Arihant Syncotex Mills Pvt Ltd. (ASMPL or "The Company") rating has been reaffirmed on account experience of the promoters, operational synergy with other group entities, increasing scale of operations, company's location with an ease of accessibility to raw materials and its customers.

The rating is however constrained on account of leveraged capital structure, modest financial risk profile, working capital intensive nature of operations, vulnerability of profitability to adverse fluctuations in raw material prices and intense competition

#### Outlook: Stable

The outlook is expected to be stable on account of its experienced management and location of the manufacturing unit with an increased scale of operations.

#### KEY RATING DRIVERS

##### Credit Strengths:

**Experience Promoters and operational synergy of the group:** Arihant Syncotex Mills Pvt Ltd (ASMPL) was incorporated as a Private Limited Company as on 29th August 2008. The company has a registered office situated at Ichalkaranji, Taluka-Hatkanagale, District- Kolhapur, Maharashtra. The company is engaged in manufacturing and marketing of fabric on Airjet Looms, Rapier Looms and semi auto looms. The promoters of the company have been engaged in the business of manufacturing and marketing of fabric since the last 45 years. The Company has developed a network of its own, sister concern and outside clients for manufacturing of fabric. The marketing agency of the Group namely Vivek Textile Agency is engaged in selling fabric on brokerage basis.

**Government Policies:** The textile industry continues to benefit from favourable government policies due to its contribution to the economy and employment generation potential. Various such schemes like



subsidies on electricity, subsidies on interest towards bank loans, Technology Upgradation Funds Scheme (TUFS), Capital Subsidy Scheme for Powerloom Units have benefited ASMPL.

**Location:** The company is located in the textile hub of Ichalkaranji, Maharashtra which is known for producing one crore meters of yarn every day. The raw materials supplies are easily available with less transportation cost. The town of Ichalkaranji has attracted investments from domestic as well as international textile players.

**Credit Concerns:**

**Modest financial risk profile:** The operating income was average and is recorded of Rs. 144.62 Crs in FY19. The company has an increased dependability on external bank borrowing which led to the leveraged capital structure marked by net worth of Rs. 11.78 Crs and gearing ratio of 4.42 times in FY19. Modest debt protection metrics with ISCR and DSCR of 1.72 times and 1.20 times respectively in FY19.

**Working capital intensive nature of business:** Increase in scale of operations with higher credits from customers for more than 4 months has led to a working capital intensive operations. The gross current assets is around 161 days.

**Fluctuation in raw materials prices:** The company is exposed to raw material price fluctuation risk as raw material cost constitutes ~88% of total operating expenses in FY19. Any adverse movement in raw material prices will impact profitability.

**Intense competition:** The company's manufacturing unit is located in Ichalkaranji, Maharashtra which is the hub for textile Industry. The company operates in a highly competitive industry and location with a number of organised and unorganised players in the market, keeping its margin under pressure and limiting bargaining power.

**LIQUIDITY: STRETCHED**

The company has a stretched liquidity driven cash credit utilization of 99.63% on average over the 8 months ended November 2019. The working capital cycle is stretched mainly due to the higher credit period of 5 months provided to the customers.

**ANALYTICAL APPROACH AND APPLICABLE RATING CRITERIA**

For arriving at its ratings, BWR has considered the standalone business and performance of ASMPL . BWR has applied its rating methodology as detailed in the Rating Criteria (*hyperlinks provided at the end of this rationale*).

**RATING SENSITIVITIES**

Going forward, the ability of the company to improve its capital structure by increasing its net worth, with ramp up of scale of operations and profitability would be key rating sensitivities.

**Positive:** Increase in scale of operation with healthy profitability while improving its liquidity profile will be positive for the rating.

**Negative:** Lower than expected growth in revenues and profitability coupled with increase in working-capital requirements of the company adversely impacting the liquidity position will be negative for the rating.



### COMPANY PROFILE

Arihant Syncotex Mills Pvt Ltd, established in Aug 2008, is engaged in the business of manufacture and marketing of fabrics. The company has its plant located at Hatkanangale, in the Kolhapur district of Maharashtra with necessary infrastructure in place. The company procures its raw materials locally and markets its products through one its group company. Mr. Arunkumar Lalwani, Director and the family members form the key personnel of the company.

### KEY FINANCIAL INDICATORS

Key Parameters	Units	FY18	FY19
Result Type		Audited	Audited
Total Operating Income	Rs. Crs	129.07	144.62
OPBDIT	Rs. Crs	6.49	7.32
PAT	Rs. Crs	1.40	1.80
Tangible Net Worth	Rs. Crs	9.99	11.78
Total Debt/TNW	Times	3.91	4.42
Current Ratio	Times	1.34	1.36

**KEY COVENANTS OF THE FACILITY RATED: NA**

**NON-COOPERATION WITH PREVIOUS RATING AGENCY: NA**

### RATING HISTORY

Facilities	Current Rating (2020)			Rating History		
	Tenure	Amount (Rs. Crs)	Rating	2019	2018	2017
<b>Fund Based</b>						
Cash Credit	Long Term	40.00	<b>BWR BB</b> (Stable) Reaffirmed	Rating Not Reviewed	<b>BWR BB</b> (Stable)	NA
<b>Total</b>		<b>40.00</b>	<b>Rupees Forty Crores Only</b>			

### COMPLEXITY LEVELS OF THE INSTRUMENTS

For more information, visit [www.brickworkratings.com/download/ComplexityLevels.pdf](http://www.brickworkratings.com/download/ComplexityLevels.pdf)

### Hyperlink/Reference to applicable Criteria

- [General Criteria](#)
- [Approach to Financial Ratios](#)
- [Manufacturing Sector](#)



Analytical Contacts	Investor and Media Relations
<p>Noman Agashwala Associate Director - Ratings B :+ 91 022-67456630 <a href="mailto:noman.a@brickworkratings.com">noman.a@brickworkratings.com</a></p> <p>Netra Rathod Ratings Analyst B :+91 22 6745 6609 <a href="mailto:netra.r@brickworkratings.com">netra.r@brickworkratings.com</a></p>	<p>Liena Thakur Assistant Vice President - Corporate Communications M: +91 84339 94686 <a href="mailto:liena.t@brickworkratings.com">liena.t@brickworkratings.com</a></p>

**ANNEXURE I**  
**Details of Bank Facilities rated by BWR**

Sl. No.	Name of the Bank	Type of Facilities	Long Term (Rs. Crs)	Short Term (Rs. Crs)	Total (Rs. Crs)
1.	Indian Bank	Cash Credit	40.00	-	40.00
<b>TOTAL</b>					<b>40.00</b>

**For print and digital media**

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## **DISCLAIMER**

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