Rating Rationale

Arihant Syncotex Mills Pvt Ltd

23 April 2018

Brickwork Ratings assigns the ratings for the Bank Loan Facilities of ₹. 40.00 Crores of Arihant Syncotex Mills Pvt Ltd.

Particulars

Facility	Amount (₹ Crs)	Tenure	Rating*
Fund based	**40.00**	**Long Term**	**BWR BB** (Pronounced as BWR Double B) **Outlook: Stable**
Total	**40.00**	**INR Forty Crores Only**	

*Please refer to BWR website www.brickworkratings.com/ for definition of the ratings

Rationale/Description of Key Rating Drivers/Rating sensitivities:

BWR has principally relied upon the audited financial results up to FY17, estimates for FY 18, publicly available information and information/clarifications provided by the company management.

The rating is constrained on account of leveraged capital structure, exposure to raw material price volatility, low profitability, working capital intensive nature of operations and company operating in an industry characterised by intense competition. The rating is, however, comforted by experience and qualified promoters, favourable government policies supporting textile sector, company's location in an industrial hub with easy accessibility to raw materials & its target market, increased focus on enhancing capacity along with improved utilisation resulting in revenues showing increasing trend.

Description of Key Rating Drivers

- **Credit Strengths:**

Promoters: The promoters of the company are experienced in the line of business as well as group companies operating in the same line business providing operational synergies.

Government Policies: The textile industry continue to benefit from favourable government policies due to its contribution to the economy and employment generation potential. Technology Upgradation Fund

Scheme has enabled cotton fabric industry access funds for upgradation of machinery at a lower costs.

Location: The company is located in the textile hub of Ichalkaranji, Maharashtra known for produces one crore meters of yarn every day. The town of Ichalkaranji has attracted investments from domestic as well as international textile players.

Improved Financial Profile: The increased investments into enhancing capacities at its manufacturing along with increased outsourcing has resulted in enhanced capability of the company to service larger orders. It has resulted in increased revenues over the years along with improved profitability.

Coverage Indicators: The debt coverage metrics of ISCR & DSCR are at a manageable level.

- **Credit Risks:**

Capital Structure: The capital structure of the company is highly leveraged with a high gearing ratio of 4.20x.

Low profitability: The company's profit margins are low due to high procurement costs as well as finance charges.

Stretched Liquidity: The cash conversion cycle of the company has shown increasing trend, thus, resulting in liquidity being stretched.

Highly intense competition: The company operates in an industry characterised by intense competition, low entry barriers which restricts its pricing flexibility.

Price volatility: The company's raw material - cotton - is seasonal in nature, thus, subject to fluctuations in availability and price.

Analytical Approach

For arriving at its ratings, BWR has applied its rating methodology as detailed in the Rating Criteria detailed below (hyperlinks provided at the end of this rationale).

Rating Outlook: *Stable*

BWR believes the **Arihant Syncotex Mills Pvt Ltd** business risk profile will be maintained over the medium term. The 'Stable' outlook indicates a low likelihood of rating change over the medium term. The rating outlook may be revised to 'Positive' in case the revenues and profit show sustained improvement. The rating outlook may be revised to 'Negative' if the revenues go down and profit margins show lower than expected figures.

About the Company

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.

Company Financial Performance

As per audited FY 17 financials, Total Operating Income increased to Rs. 111.02 crs (v. Rs. 96.82 crs), continuing its increasing trend over the years on account of increased capacity enabling higher servicing of orders. Profitability, both at EBITDA & PAT increased to Rs. 5.19 crs (v. Rs. 4.68 crs) & Rs. 0.97 crs (v. Rs. 0.70 crs), in line with revenues. TNW increased to Rs. 8.64 crs (v. Rs. 7.68 crs), while Total Debt increased to Rs. 36.33 crs (Rs. 27.20 crs) resulting in a gearing ratio of 4.20x (v. 3.54x). Debt coverage metrics of ISCR & DSCR at 1.63x (v. 1.61x) & 1.12x (v. 1.33x) respectively, provide sufficient debt coverage. Liquidity remained stretched with an elongated cash conversion cycle of 114 days (v. 92 days), while current ratio stands at 1.22x (1.34x).

As per estimates for FY 18, the company achieved Total Operating Income increased to Rs. 140.00 crs with a net profit of Rs. 1.51 crs.

Rating History for the last three years

S.No	Instrument /Facility	Current Rating (2018)			Rating History		
		Type	Amount (₹ Crs)	Rating	2017	2016	2015
1.	**Fund Based**	Long Term	40.00	**BWR BB**	**-**	**-**	**-**
	Total		**40.00**	**₹ Forty Crores Only**			

Status of non-cooperation with previous CRA (if applicable)-Reason and comments

NA

Key Financial Indicators

Key Parameters	Units	2016	2017
Result Type		**(Audited)**	**(Audited)**
Revenues	₹ Cr	96.82	110.86
EBITDA	₹ Cr	4.68	5.19
PAT	₹ Cr	0.70	0.97
Tangible Net worth	₹ Cr	7.68	8.64
Total Debt/Tangible Net worth	Times	3.54	4.20
Current Ratio	Times	1.34	1.22

Hyperlink/Reference to applicable Criteria

- General Criteria
- Approach to Financial Ratios
- Manufacturing Companies
- Short Term Debt

For any other criteria obtain hyperlinks from website

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Note on complexity levels of the rated instrument:
BWR complexity levels are meant for educating investors. The BWR complexity levels are available at www.brickworkratings.com/download/ComplexityLevels.pdf Investors queries can be sent to info@brickworkratings.com.

About Brickwork Ratings

Brickwork Ratings (BWR), a SEBI registered Credit Rating Agency, has also been accredited by RBI and empaneled by NSIC, offers Bank Loan, NCD, Commercial Paper, MSME ratings and grading services. NABARD has empaneled Brickwork for MFI and NGO grading. BWR is accredited by IREDA & the Ministry of New and Renewable Energy (MNRE), Government of India. Brickwork Ratings has Canara Bank, a Nationalized Bank, as its promoter and strategic partner.

BWR has its corporate office in Bengaluru and a country-wide presence with its offices in Ahmedabad, Chandigarh, Chennai, Guwahati, Hyderabad, Kolkata, Mumbai and New Delhi along with representatives in 150+ locations. BWR has rated debt instruments/bonds/bank loans, securitized paper of over ₹ 10,00,000 Cr. In addition, BWR has rated over 6300 MSMEs. Also, Fixed Deposits and Commercial Papers etc. worth over ₹24,440 Cr have been rated.

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