Rating Rationale

7 July 2020

Drashti Cotspin Pvt. Ltd.

Brickwork Ratings reaffirms the ratings for the Bank Loan Facilities of ₹. 19.71 Crores of Drashti Cotspin Pvt. Ltd..

Particulars

Facility	Amount (₹ Crs)		Tenure	Rating*	
	Previous	Present		Previous (March, 2019)	Present
Fund based	19.45	18.21	Long Term	BWR BB- Stable	BWR BB- Stable (Reaffirmation)
Non Fund Based	1.50	1.50	Short Term	BWR A4	BWR A4 (Reaffirmation)
Total	20.95	19.71	INR Nineteen Crore Seventy One Lakh Only		

*Please refer to BWR website www.brickworkratings.com/ for definition of the ratings
Complete details of Bank facilities is provided in Annexure-I

Ratings: Reaffirmed

Rating Action/Outlook

BWR has considered the standalone financials of the Company and essentially relied upon the audited financial statements up to FY19, management certified provisional financials of FY20, projected financials up to FY22 and publicly available information and clarifications provided by the entity's management.

The rating reaffirmation draws strength from the moderate financial risk profile with comfortable net worth and adequate liquidity position. The Company also benefits from the established market presence of the Drashti Cotspin Group in the domestic textile market and its strong operational profile. The ratings are, however, constrained by pressure on the operating margins and the expected slowdown in the textile market and working capital sensitive nature of operation.

Going further, the risk of stretched liquidity and achieving the estimated sales, are expected to be hit as a result of the COVID epidemic.

BWR believes that the business risk profile will be maintained over the medium term. The 'Stable' outlook indicates a low likelihood of rating change over the medium term.

Key Rating Drivers:

Credit Strengths:

- **Extensive experience of promoters in the textile industry**: DCPL is managed by Mr. Jayvant Finava and family members. Promoters have an experience of more than two decades in the line of textile business. The company benefits from strong relationships with customers and suppliers.

- **Moderate financial risk profile:** The company has reported a net profit of Rs. 0.34 Crs on a Total operating income of Rs. 6.12 Crs in FY19. As per management certified provisional financial, the Company has achieved a sales of Rs. 54.08 Crs as on 31st March, 2020. The Company has a comfortable net worth base and improved gearing. Tangible net worth was Rs. 13.42 Crs in FY19. Gearing improved from 1.75x in FY18 to 1.47x in FY19 on a back of timely repayment of the debt obligations.

- **Locational advantage:** The spinning facility of DCPL is located at Amreli District, which is near to the cotton producing belt of Gujarat. It gives advantage of easy availability and procurement of raw cotton at effective prices.

Credit risks:

- **Susceptibility of profit to volatility in the raw material price:** Operating profit margins have dipped from 13.43% in FY18 to 10.32% in FY19 owing to fluctuation in the cotton prices. Further, the Net profit margins have reduced to 0.58% in FY19 as compared to 5.23% for FY 2018. As a result the debt protection metrics have remained weak. Textile Industry's profit margins are highly correlated with fluctuations in cotton prices and are susceptible to various risks like the need for adherence to quality, seasonality, etc.

- **Exposed to intense competition in the highly fragmented Indian textile industry:** The textile industry segment is characterised by high levels of fragmentation and low entry barriers across the value chain The company faces stiff competition in the both domestic and overseas market from other up and coming players, which attract more business because of their lower production costs, ease-of-doing-business and availability of cheap labour.

- **Working capital intensive nature of operations:** The Company's operations are working

capital intensive operations as reflected by higher inventory holding period owing to the nature of the business.

Rating Sensitiveness:

Positive:

Substantial growth in revenue and profitability while maintaining working capital cycle and improvement in gearing, infusion of funds as and when required and comfortable debt protection metrics be key rating positives.

Negative:

If there is a significant dip in operating performance, sustained pressure on margins, elongation of its working capital cycle owing to the Covid-19 outbreak, would adversely impact its financial risk profile and liquidity position.

Company Profile:

Drashti Cotspin Private Limited was incorporated in 2014 at Amreli, Gujarat for manufacturing of cotton yarn. The Company is promoted and managed by Mr. Jayvant Finava and Family.

KEY COVENANTS OF THE INSTRUMENT/FACILITY RATED: Not Applicable

KEY FINANCIAL INDICATORS (in ₹ Cr)

Key Parameters	**Units**	**FY19**	**FY18**
Result Type		**Audited**	**Audited**
Operating Income	₹ in Cr	6.12	6.97
Net Profit	₹ in Cr	0.34	2.72
Tangible net worth	₹ in Cr	13.42	13.08
Debt/Tangible net worth	Times	1.47	1.75
Current Ratio	Times	1.14	1.38

NON-COOPERATION WITH PREVIOUS RATING AGENCY IF ANY: Not Applicable

RATING HISTORY FOR THE PREVIOUS THREE YEARS [including withdrawal and suspended]

Facilities	Current Rating (2020)^			Rating History		
	Tenure	Amount (₹ Cr)	Rating	07 March 2019	2018	2017
Fund Based	Long Term	**18.21**	**BWR BB- Stable (Reaffirmation)**	**BWR BB-** Stable	**Not Rated**	**Not Rated**
Non-Fund Based	Short Term	**1.50**	**BWR A4 (Reaffirmation)**	**BWR A4**	**Not Rated**	**Not Rated**
Total		**19.71**	**INR Nineteen Crore Seventy One Lakh Only**			

^Rating not reviewed advisory issued on 9 th March, 2020 due to non availability information.

COMPLEXITY LEVELS OF THE INSTRUMENTS

For more information, visit www.brickworkratings.com/download/ComplexityLevels.pdf

Hyperlink/Reference to applicable Criteria

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

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