Rating Rationale

Phenix Spinning Pvt Ltd **2 March 2018**

Brickwork Ratings reaffirms/revises the ratings for the Bank Loan Facilities of ₹ 32.94 Crores of Phenix Spinning Pvt Ltd.

Particulars

Facility Rated	Previous Limits (Rs. Crs)	Present Limits (Rs. Crs)	Tenure	Previous Rating (August 2017)	Present Rating *
Fund Based Cash Credit Term Loans	**33.61** 7.00 26.61	**31.39** 7.00 24.39	**Long Term**	**BWR BB+** Pronounced BWR Double B Plus **Outlook: Stable**	**BWR BB+** Pronounced BWR Double B Plus **Outlook: Stable** **Reaffirmation**
Non-Fund Based Bank Guarantee	**1.55** 1.55	**1.55** 1.55	**Short Term**	**BWR A4** Pronounced BWR A Four	**BWR A4+** Pronounced BWR A Four Plus **Upgraded**
Total	**35.16**	**Rs. 32.94 Crores (Rupees Thirty Two Crores Ninety Four Lakhs Only)**			

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

Rationale/Description of Key Rating Drivers/Rating sensitivities:

BWR has essentially relied upon audited financial up to FY17, Provisional results of 9MFY18, projected financial statements up to FY19, publicly available information and information provided by the bank/management.

The ratings take in to account the experience of the promoters in textile industry, locational advantage, satisfactory tangible net worth and tax incentives and other subsidies from government to support operations in near term. The rating also factors in overall improvement in financial performance marked by growth in revenue, improved net profit margin and improvement in gearing along with debt coverage indicators.
The rating is, however, constrained by the average scale of operation, inventory price risk led by seasonality and volatile raw material prices and intense competition from other players in the

industry; particularly those with large capacities. Profit margins have improved, however the same continue to be vulnerable to volatility in raw material prices in domestic and international markets. Subsidies play a major role in the profitability of the unit.

Key Rating Drivers:

1. Experienced management & support from group: Promoters have reasonable experience of the business. They are supported by experienced and qualified management.
2. Locational advantage: The Company derives logistical advantages from proximity to Ports. The location in the cotton-producing belt, providing an easy access to quality raw material, also support the credit profile.
3. Overall Performance: The company has started operations from November 2015 and is utilising 90-95% of its installed capacity as of now. FY17 was the first full year of company operations and company has achieved revenue of Rs. 74.95 Crs and net profit margin of 3.45% compare to projections of Rs. 70.78 Crs and 3.39% respectively. Operations turned profitable in the first full year of operations itself.
4. Financial risk profile: Gearing of the company has improved from 1.13x in FY16 to 1.00x in FY17. Further the gearing levels are expected to improve with reduction in Term Loan amount in coming years. Interest and debt coverage indicators have also improved from last year.
5. High competitive nature of industry: Competitive intensity of the business, domestically as well as internationally, limits the bargaining power of the entity.
6. Volatile raw material prices impacting profitability: Cotton, the key raw material consumed by the company has exhibited high volatility in its prices in the past and in turn impacts the profitability of the company. The profitability of spinning mills largely depend on the prices of cotton and cotton yarn, which are governed by various factors such as area under cultivation, monsoon, export quota fixed by the government, international demand-supply situation, etc.
7. Regulatory Risk: The industry derives benefit from favorable government policies such as duty drawback, export oriented incentives, etc. and any adverse changes in these can impact the competitiveness of the industry.

Analytical Approach:

Ratings have been based on the undernoted hyperlinked rating criteria. The company is evaluated as a stand-alone company.

Rating Outlook: Stable

BWR believes Phenix Spinning Pvt Ltd's 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 profitability show substantial improvement. The rating outlook may be revised to 'Negative' if the revenues and profit margins show lower than expected figures or there is a deterioration in the financial risk profile.

About the Company

Phenix Spinning Pvt. Ltd. is a Private Limited Company, incorporated on 18th February 2014, with the objective of being in the cotton yarn spinning business. It had, initially, proposed to set up a cotton ginning and yarn manufacturing facility of 16,320 spindles at Amreli, Gujarat. However, the company has installed additional spindles from their own funds and increased the installed capacity to 17960 spindles. The Project was expected to achieve commercial operations by 1st September 2015. There was a delay in arranging the outside debt and due to this the commercial operation started with a delay of two months in November, 2015.

Company Financial Performance

Company reported total operating income of Rs 74.95 Crs in FY17 (Audited) as compared to Rs. 18.56 Crs in FY16 (Audited). In FY17, net profit was at Rs 1.99 Crs as compared to a net loss of Rs. 01.79 Crs in FY16. The management has conveyed that gross Sales for H1FY18 is recorded at Rs. 43.43 Crs and expecting to achieve more than Rs. 80 Crs in current year.

Rating History for the last three years:

Sl. No.	Instrument/ Facility	Current Rating			Rating History		
		Type	Amount (Rs Crs)	Rating	Aug 17	Oct 16	2015
	Fund Based	**Long Term**	**31.39**	**BWR BB+** Pronounced BWR Double B Plus **Outlook: Stable Reaffirmation**	BWR BB+	BWR BB	NA
	Non-Fund Based	**Short Term**	**1.55**	**BWR A4+** Pronounced BWR A Four Plus **Upgraded**	BWR A4	BWR A4	NA
	Total Limits		**Rs. 32.94 Crores (Rupees Thirty Two Crores Ninety Four Lakhs Only)**				

Status of non-cooperation with previous CRA: NA

Any other information: NA

Key Financial Indicators

Particulars	Unit	FY16 (A)	FY17(A)
Operating Income	Rs. Crores	18.56	74.95
EBITDA	Rs. Crores	3.37	9.00
Tangible Net worth	Rs. Crores	33.10	34.73
Total Debt : Tangible Net Worth	Times	1.08	1.00
DSCR	Times	1.37	2.02
Current Ratio	Times	1.61	1.66

Hyperlink/Reference to Applicable Criteria

[General Criteria]

[Approach to Financial Ratios]

[Manufacturing Companies Short Term Debt]

Analytical Contacts	Media
Mr. Sushil Kumar Chitakara DGM-Ratings analyst@brickworkratings.com	media@brickworkratings.com
	Relationship Contact
	bd@brickworkratings.com
Phone: 1-860-425-2742	

For print and digital media

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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 ₹ 9,30,000 Cr. In addition, BWR has rated about 5000 MSMEs. Also, Fixed Deposits and Commercial Papers etc. worth over ₹19,700 Cr have been rated. Brickwork has a major presence in rating of nearly 100 cities.

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