



Rating Rationale

SHARMANJI YARNS PRIVATE LIMITED

September 08th, 2017

Brickwork Ratings reaffirms long term and short term ratings* for the bank loan facilities amounting to Rs. 210.44 Crs enhanced from Rs. 160.41 Crs of Sharmanji Yarns Private Limited

Particulars:

Issue	Amount Rated (Rs. Cr)		Tenure	Previous Rating	Present Rating
	Previous	Present			
Fund Based	157.91	207.94	Long Term	BWR BBB+ (Outlook Stable)	BWR BBB+ Outlook: Stable Pronounced as BWR Triple B Plus Reaffirmed
Non-fund Based	2.50	2.50	Short Term	BWR A2	BWR A2 Pronounced as BWR Single A Two Reaffirmed
Total	160.41	210.44	(Rupees Two Hundred Ten Crores and Forty Four Lacs)		

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

Long term rating reaffirmed and short term rating reaffirmed for enhanced bank loan facilities of the company.

Rationale/Rating Sensitivities:

BWR has principally relied upon the audited financial results of the company up to FY16, unaudited financial data for FY17, publicly available information and information/clarifications provided by the company while carrying out the surveillance review of the company's ratings.

The reaffirmation of ratings of Sharmanji Yarns Private Limited (SYPL or 'the company') for the enhanced bank loan facilities factors in the experienced and resourceful promoters of the company, established track record, consistent growth in revenues and networth, enhancement in manufacturing capacities, diverse product portfolio, systematic procurement and distribution channels, established client relationships besides tie-ups with its suppliers and continuous technology up-gradation. However, ratings are constrained by high inventory holding levels due to seasonal availability of cotton, high competition driven by fragmented nature of industry and risks inherent to the industry viz. sensitivity to the changes in government policies and environmental conditions which may affect the availability and prices of raw cotton.

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Going forward, the ability of the company to scale up its operations on a sustained basis and improvement in profit margins and networth will be the key rating sensitivities.

Key Rating Drivers:

Improved Performance: The company's revenue increased by ~11.5% in FY17 (unaudited) to Rs. 328.79 Cr from Rs. 294.98 Cr in FY16. The company has changed its marketing strategy from direct marketing to dealer network based system, with improved credit terms. This has enabled the company to reduce receivables levels thereby reducing loan utilization levels, which has resulted in reducing the interest and finance costs by 30% in FY17 (unaudited) as compared to FY16. Consequently, net profit margin also improved in FY17 (unaudited) and stood at 7.07% as compared to 6.60% in FY16. The company continues to be adequately capitalized as witnessed in continuing increase in tangible networth y-o-y. Tangible networth stood at Rs. 130.99 Crs in FY17 (unaudited) as compared to Rs. 105.69 Crs in FY16. Further, promoters have infused equity to support capacity expansion.

Implementation of Capacity Expansion: The company has completed its round of capacity expansion with the installation of additional 27,648 spindles from 67,536 spindles in FY16 to 95,184 spindles in FY17, for which the company has availed additional term loans of Rs. 80 Cr from banks. Commercial production from the enhanced capacity commenced in June 2017 which resulted into improved revenue generation in of Rs. 99.34 Cr Q1FY18 (unaudited) as compared to Rs. 83.25 Cr. Q1FY17 (unaudited).

Strong Coverage Indicators: The company's interest coverage ratio (ISCR) improved from 5.09x in FY16 to 6.59x in FY17 (unaudited) owing to reduction in interest costs. Debt Service Coverage ratio (DSCR) for FY17 (unaudited) also improved to 1.54x from 1.30x in FY16.

Volatility in Cotton Prices: The company is a cotton yarn manufacturer and exporter, and thus any volatility in the cotton prices may have an upside/downside impact on the company's profitability margins. Cotton prices have seen an increasing trend during last year due to lower crop and tight inventory levels leading to lower profit margins for the spinning mills. Consequently, the company's EBIDTA margins declined from 18.31% in FY16 to 15.07% in FY17 (unaudited)

Rating Outlook: Stable

BWR believes that **SHARMANJI YARNS PRIVATE LIMITED'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 company is able to improve its scale of operations and profit margins. The rating outlook may be revised to 'Negative' if the scale of operations deteriorates any further.

About the Company:

Sharmanji Yarns Private Limited (SYPL) was incorporated in 2002 at Ludhiana. Company is engaged in manufacturing of cotton yarn & polyester cotton yarn on Ring Spinning System. Presently, SYPL has installed capacity of 95,184 spindles (27648 spindles has been added in June, 2017) and with machines



like Blow room, Comber, Draw frame, Speed frame, Ring frame, Auto corner & Yarn conditioning. The company sources its raw material from local markets only. The domestic market accounts for ~95% of the turnover of SYPL. The majority of exports are to the countries like China, Bangladesh, Egypt, and Vietnam. The company is managed by Mr. Jatinder Kumar Jain and his family members, who are well supported by able team of qualified personnel.

Company's Financial Performance:

The performance of the company has improved in terms of operating income and net profit margins in FY17 (unaudited).

Key Financial Figures			
Particulars	Unit	FY16 (A)	FY17 (UA)
Operating Income	Rs. Crores	294.98	328.79
EBITDA	Rs. Crores	54	49.55
PAT	Rs. Crores	19.47	23.19
Tangible Networth	Rs. Crores	105.69	130.99
Total Debt	Rs. Crores	107.03	182.44
Total Debt : Equity	Times	1.01	1.39
Current Ratio	Times	1.49	1.44

Rating History for the last three years:

Sl. No.	Facility	Current Rating (Sept 2017)		Rating History			
	Facilities	Type	Amount (Rs Crs)	Rating	2016	2015	2014
1	Fund Based	Long Term	207.94	BWR BBB+	BWR BBB+	NA	NA
2	Non Fund Based	Short Term	2.5	BWR A2	BWR A2	NA	NA
Total			210.44	(INR Two Hundred Ten Crores and Forty Four Lakhs Only)			

Status of non-cooperation with previous CRA: NA

Hyperlink/Reference to Applicable Criteria:

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



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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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