Triveni Spinning Mills Private Limited

Rating

Facilities	Amount (Rs. Million)	Ratings[1]	Rating Action
Long Term Bank Facilities	352.96 (Decreased from Rs. 402.46 Mn)	**CARE-NP BB+ [Double B Plus]**	**Reaffirmed**
Short Term Bank Facilities	2,030.00	**CARE-NP A4+ [A Four Plus]**	**Reaffirmed**
Total Bank Facilities	**2,382.96 (Two Billion Three Hundred Eighty Two Million and Ninety Six Thousand) (Reduced from Rs. 2,432.46 Mn)**		

Details of Facilities in Annexure 1

CARE Ratings Nepal Limited (CRNL) has reaffirmed the rating of 'CARE-NP BB+' assigned to the long term bank facilities and 'CARE-NP A4+' assigned to the short term bank facilities of Triveni Spinning Mills Private Limited (TSMPL).

Detailed Rationale & Key Rating Drivers

The reaffirmation of ratings assigned to the bank facilities of TSMPL factors in the impact of Covid-19 on the operations of the company and subdued operational and financial performance which resulted into decline in total operating income coupled with net losses reported in FY20 (Audited, refers to 12 months period ended mid-July 2020), leveraged debt service coverage indicators and working capital intensive nature of operations. The ratings also factor in exposure to contingent liability from Nepal Electricity Authority (NEA) and raw material price volatility risk with susceptibility to adverse foreign exchange price movements. The ratings also took cognizance of continued impact of Covid-19 on the operations in 11MFY21 (Unaudited, refers to 11 months period ended mid-July 2021) impacting the overall financial position during the period.

The ratings, however, derive strength from established and long track record of operations along with strong promoters and experienced management team, presence of the company in both domestic and export market, diversified product profile in synthetic yarn and favourable government policies stimulating export sales.

Going forward, ability of the company to increase its operations while improving its profitability margins, improvement in capital structure and limiting its debt levels will remain as key rating sensitivities. Furthermore, the impact of disputed contingent liability on the financials of the company if crystalized will be crucial from the credit prospective.

Detailed Description of the Key Rating Drivers

Key Rating Weaknesses

Below average financial risk profile

Due to the global outbreak of Coronavirus disease (COVID-19) coupled with recurring lockdowns which resulted disturbances in the supply chain and the export business of the company has been impacted. Total revenue of the company declined by ~37% in FY20 to Rs. 1,902 Mn majorly due to decline in quantity sold by ~35% to 4,380 MT. Accordingly, PBILDT margin reduced to 2.53% in FY20. With lower PBILDT generated and high interest and depreciation expense, company reported losses of Rs. 91 Mn in FY20. During 11MFY21, the operations of the company continued to remain subdued and reported total sales of Rs. 1,457 Mn during the period.

The overall gearing for the company stood high at 2.19x as on mid-July 2020 as compared with 1.79x as on previous balance sheet date. The deterioration in overall gearing is on account of net losses reported by the company leading to decline in net-worth base coupled with additional debt taken by the company to support the additional working capital requirements. Also, due to declining profitability margins and increase in debt levels; the debt service coverage indicators stood stressed for FY20 and expected to remain weak in near future.

Working capital intensive nature of operations with high reliance on bank finance for funding

The operations of the company are working capital intensive marked by an average operating cycle of around 218 days for FY20. Being a manufacturing company, TSMPL is required to maintain adequate inventory of material on account of high lead time for purchases and to ensure regular supply of fibres for uninterrupted manufacturing operations, the average inventory period remained high at around 175 days during FY20. The company imports staple fibres of different length and fineness from various countries and as most of the purchases for raw material are against the sight LC. The average creditor days of the company stood at 33 days in FY20. All this led to high working capital requirements. The working capital requirements were met largely through bank borrowings which resulted in average utilization of approximately 80% of its drawing power for the last 10 months period ended mid-May 2021.

Raw material price volatility risk and susceptibility to adverse foreign exchange price movements

The entities in textile industry are susceptible to fluctuations in raw material prices. The main raw material of the company is polyester fibres which is crude oil derivative. Crude oil being a product of international importance, its price is very volatile depending on the demand-supply situation in the global markets. Any sudden spurt in these raw material prices might not be passed on to the end customers, instantly, on account of highly competitive nature of the industry, which could lead to decline in profitability margins.

The business operations of TSMPL involve both imports and exports resulting in sales realization and cash outflow in foreign currency. TSMPL exports its product majorly to Turkey and India and export contribution to total sales stood at 84% for FY20. Further, its import procurement to raw material cost stood at around 65% for last three financial years (FY18-FY20), thereby exposing the company to volatility in foreign exchange rates. The company doesn’t have any policy to hedge its foreign currency risk. However, being importer and exporter, the foreign currency risk is partially mitigated through a natural hedge.

Customer and geographic concentration and presence in highly competitive industry

TSMPL is engaged in the manufacturing and export of synthetic yarn mainly to India and Turkey. Due to high geographic concentration, the company is also exposed to unfavorable changes in the government policy of that country. The top ten customers of the company accounted for more than 70% of sales to India during FY20 exposing the company to customer concentration risk. This also exposes the company’s revenue growth and profitability to its customer’s future growth plans. However, the company has been getting repetitive orders for the last few years from its customers. This long-term and close relationship with its customers is reflective of the company’s demonstrated ability to provide quality products.

The textile industry is inherently cyclical in nature. Any adverse changes in the global economic outlook as well as demand-supply scenario in the exporting market directly impacts operations of the company.

Exposed to contingent liability from Nepal Electricity Authority (NEA)

TSMPL has significant contingent liabilities amounting to NPR. 236 Mn as on mid-July, 2020 in its books with major portion of liability on account of additional electricity charges. During FY19, Nepal Electricity Authority (NEA) has raised a demand of the said amount for the period August 2016 to April 2018 related to dedicated feeder line. The matter is under litigation and any unfavourable development in contingent liabilities would remain a key rating sensitivity.

Key Rating Strengths

Established and long track record of operations along with strong promoters and experienced management team

TSMPL has an operational track record of more than 20 years in yarn manufacturing industry and derives strength from its strong promoter group. The entire shareholding is held by individuals belonging to the Sanghai family. The Sanghai group has presence in diversified businesses viz. banking, insurance, manufacturing, trading etc.

Company is managed under the overall guidance of its three member Board of Directors (BoD) who possesses wide experience in the related field. The company is chaired by Mr. Ramchandra Sanghai who is involved in various business of the Group. The BoDs are supported by a team of qualified and experienced professionals to run the day-to-day operations of TSML

Diversified product profile in synthetic yarn

TSMPL is one of the prominent producers and exporters of polyester, viscose, acrylic yarns, melange and its blend in Nepal. Company produces a variety of synthetic yarns in a variety of blends and counts for all kinds of weaving and knitting needs. The company has been exporting its products to different countries which demonstrates the company's ability to produce yarns which meet international standards.

Support from the government stimulating export sales

TSMPL's revenue from export sales is supported by both domestic and foreign government policies. As per the new provisions in FY19, Nepal government has announced incentives of three percent on yarn made out of polyester, viscose, acrylic and cotton in a bid to boost export earnings and manage increasing pressure on balance of payment. As per the new provisions, the incentives are also provided to companies which are exporting to India which argues well for the company. This increase in export incentive by the government is expected to further boost export sales of synthetic yarn from Nepal. Government's continued thrust on increasing export from Nepal is likely to benefit the yarn spinning manufacturers like TSMPL. However, any change in the incentive policy of the Government will have an impact on the profitability of the company

About the Company

Triveni Spinning Mills Private Limited (TSMPL) is a private limited company established in the year 1995 and is promoted by individuals belonging to the Sanghai Family of Nepal. The company is engaged in manufacturing Polyester, Viscose & Acrylic/Blended Yarns in Chatapipra, Bara, Nepal. Currently the total installed capacity of the company is 14,689 MT per year.

Financial Performance –

(Rs. In Million)

For the Period Ended / as at Mid-July,	2018 (12m, A)	2019 (12m, A)	2020 (12m, A)
Income from Operations	2,859	3,006	1,902
PBILDT Margin (%)	7.44	6.98	2.53
Overall Gearing (times)	2.10	1.79	2.19
Interest Coverage (times)	2.84	2.92	0.62
Current Ratio (times)	1.12	1.11	1.23
Total Debt/ Gross Cash Accruals (times)	7.99	7.01	70.73

A: Audited

Annexure 1: Details of the Facilities Rated

Nature of the Facility	Type of the Facility	Amount (Rs. Million)	Ratings
Long Term Bank Facilities	Term Loan	352.96	CARE-NP BB+
Short Term Bank Facilities	Working Capital Loan	950.00	CARE-NP A4+
Short Term Bank Facilities	Non-fund based limits	1,080.00	CARE-NP A4+
Total		**2,382.96**	

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