Triveni Spinning Mills Private Limited

Ratings

Facilities	Amount (Rs. in Million)	Rating[1]	Rating Action
Long Term Bank Facilities	307.96 (Decreased from 352.96)	CARE-NP BB+ [Double B Plus]	Reaffirmed
Short Term Bank Facilities	2,225.00 (Increased from 2,030.00)	CARE-NP A4+ [A Four Plus]	Reaffirmed
Total Facilities	**2,532.96**		

Details of instruments/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 ratings assigned to the bank facilities of TSMPL continue to be constrained by its leveraged capital structure with modest debt service coverage indicators amid subdued financial performance marked by net losses in FY21 (Audited, refers to the twelve-month period ended mid-July 2021), albeit substantial improvement likely in FY22 based on unaudited interim financials. The ratings also factor in working capital intensive nature of operations, exposure to raw material price volatility risk with susceptibility to adverse foreign exchange price movements and exposure to volatile interest rates. The ratings also take cognizance of the exposure to contingent liability.

The ratings, however, derive strength from TSMPL's 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. The ratings also factor in the rebound in exports in FY22 backed by an improving demand scenario.

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 in FY21, however likely improvement in FY22 amid improving operating environment

In FY21, total operating income (TOI) of the company declined by ~5% to Rs. 1,804 Mn. Although PBILDT margin improved in FY21 to 6.74% from 2.86% in FY20 on account of decreased input price, the company still reported net losses amid high interest expense. Cost of goods sold as a percentage of net sales declined to 90% in FY21 from 94% in FY20 resulting in PBILDT of Rs. 122 Mn in FY21 compared to Rs. 54 Mn in FY20. However, due to the high interest cost of Rs. 81 Mn, the company incurred net loss of Rs. 48 Mn in FY21, compared to net loss of Rs. 91 Mn in FY20.

Overall gearing ratio deteriorated to 2.55x at the end of FY21 from 2.19x at the end of FY20 on account of decline in net-worth base coupled with additional debt taken by the company to support the additional working capital requirements. Debt service coverage indicators were also modest, albeit improved from the FY20 levels. Interest coverage ratio was 1.50x in FY21 compared to 0.70x in FY20 and Total debt/ GCA was 29.38x in FY21 which improved from 70.73x in FY20.

[1]Complete definition of the ratings assigned are available at www.careratingsnepal.com and other CARE publications

However, after subdued FY20 and FY21, the company's financial performance is on a rebounding trail during FY22. Company's TOI has surpassed pre-covid levels during 11MFY22 (Unaudited, refers to the eleven-month period ended mid-June 2022) to Rs. 3,817 Mn backed by strong pick-up for exports.

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 elongated average operating cycle of around 274 days in FY21 compared to 219 days in FY20. Being a manufacturing company, TSMPL is required to maintain adequate inventory of raw materials on account of high lead time for purchases and to ensure regular supply of fibres for uninterrupted manufacturing operations, resulting in high average inventory period which increased to 226 days in FY21 from 175 days in FY20. The company imports staple fibres of different length and fineness from various countries and most of the purchases for raw material is against letter of credit at sight. The average creditor days of the company stood at 31 days in FY21. All this led to high working capital requirements and increased reliance on bank borrowings. The average utilisation of working capital limit remains moderate at around 80%.

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 FY21. TSMPL exports its product majorly to Turkey and India and export contribution to total sales stood at 68% for FY21, thereby exposing the company to volatility in foreign exchange rates.

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. 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. Furthermore, 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

TSMPL has significant contingent liabilities on account of additional electricity charges for which provision has not been provided in the books of accounts. During FY19, Nepal Electricity Authority (NEA) had 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.

Exposure to volatile interest rate risk

Nepalese banking sector has a floating interest rate regime, where a certain premium is added to the quarterly base rate and interest rate is changed accordingly on quarterly basis. The base rates of the banks and financial institutions (BFIs) in Nepal remain quite volatile as they are impacted by available liquidity in the system which leads to change in interest rates. The volatility in interest rate is more evident currently on account of the ongoing liquidity stress in the economy. Furthermore, increased bank rates announced in the Monetary Policy for FY23 is likely to add to the upward pressure on interest rates going forward. Any significant rate hikes could put increased interest burden on the company, squeezing its profitability and impacting its liquidity position. Therefore, funding taken by the company from BFIs is subject to volatile interest rate.

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 two decades 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 and is chaired by Mr. Ramchandra Sanghai. 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 demonstrate the company's ability to produce yarns which meet international standards.

Support from the government stimulating export sales

TSMPL's revenue from export sales (~68% of total sales in FY21) is supported by both domestic and foreign government policies. Nepal government provides 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. Furthermore, the incentives are also provided to companies which are exporting to India which augurs well for the company. This export incentive by the government remains a boost for exports 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.

Brief financial performance of TSMPL during last 3 years is given below:

For the Year ended Mid- July,	FY19 (A)	FY20 (A)	FY21 (A)
Income from Operations	3,006	1,902	1,804
PBILDT Margin (%)	6.98	2.53	6.74
Overall Gearing (times)	1.79	2.19	2.71
Interest Coverage (times)	2.92	0.62	1.50
Current Ratio (times)	1.11	1.23	1.17
Total Debt/ Gross Cash Accruals (times)	7.01	70.73	29.38

A: Audited

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Type of the Facility	Amount (Rs. Million)	Rating
Long Term Bank Facilities	Term Loan	307.96	CARE-NP BB+
Short Term Bank Facilities	Fund Based Limit	1,491.00	CARE-NP A4+
Short Term Bank Facilities	Non-Fund Based Limit	734.00	CARE-NP A4+
Total Facilities		**2,532.96**	

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