

Triveni Spinning Mills Private Limited

Ratings

Facilities	Amount (Rs. in Million)	Ratings ¹	Rating Action
Long Term Bank Facilities	218.96 (Decreased from 307.96)	CARE-NP BB+ [Double B Plus]	Reaffirmed
Short Term Bank Facilities	1,771.00 (Increased from 2,225.00)	CARE-NP A4+ [A Four Plus]	Reaffirmed
Total Facilities	1,989.96 (One Thousand Nine Hundred Eighty Nine Million and Nine Hundred Sixty Thousand Only)		

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 is constrained by volatile operating performance trend of the company over the years amid fluctuating exports, 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 and financial risk profile marked by growth in total operating income during FY22 (Audited; FY refers to the twelve-month period ending mid-July), albeit moderation expected in FY23. The ratings also factor in 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 perspective.

Detailed Description of the Key Rating Drivers

Key Rating Weaknesses

Working capital intensive nature of operations

The operations of the company are working capital intensive marked by an elongated average operating cycle of around 174 days in FY22 which, however, improved from 274 days in FY21. 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 however decreased to 139 days in FY22 from 226 days in FY21. TSMPL generally allows two months credit period to its customers, with debtors turnover days of 53 days during FY22. Average creditor days of the company is generally low at 18 days in FY22 as majority of the purchases for raw material are against the sight LC.

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

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

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 around 80% for FY22, 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

During FY19, Nepal Electricity Authority (NEA) has raised additional demand towards electricity charges as dedicated feeder charges for the period Aug 2016 to April 2018. The said matter is under litigation and any unfavourable decision against the company would impact its liquidity profile and furthermore, would also be crucial from the credit perspective.

Exposure to volatile interest rate risk

Sustained requirement for short-term working capital borrowings results in a high interest expense for TSMPL. The company's interest rates are based on 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. Hence, funding taken by the company remains exposed to volatile interest rate. Sustained high interest rates, as seen over the last year or so, have added to the interest burden of the company, squeezing its profitability and impacting its liquidity position.

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 TSMPL.

Improved financial performance in FY22, albeit moderation expected in FY23

During FY22, the Total operating income (TOI) of the company grew by 106% year-on-year to Rs. 3,703 Mn from Rs. 1,800 Mn in FY21 majorly on account of high demand from international market leading to a substantial surge in exports. TSMPL majorly exports its products to India and Turkey which contributed around 77% of its total income in FY22 (FY21: 68%). PBILDT margin improved to 18.02% from 6.58% in FY21 supported by increase in scale coupled with reduction in input prices. Consequently, PAT margin of the company improved to 11.53% during FY22 compared to losses during FY21.

However, during FY23, TSMPL's business has been impacted by relatively lower demand from Turkey which accounts to around 50% of total sales of TSMPL. Exports to Turkey remained impacted in second half of FY23 also on account of devastating

earthquake in Turkey in February 2023. Similarly, amid higher input prices in FY23, particularly during the first half of the fiscal, the company's profitability is also likely to fall back considerably from the 18% PBILDT margins achieved in FY22.

The capital structure of TSMPL remains moderate with overall gearing ratio of 1.27x during FY22 which improved from 2.88x at the end of FY21, majorly on account of improvement in tangible networth amid accretion of profit. With improvement in sales revenue, interest coverage ratio of the company stood comfortable at 7.46x in FY22, which improved from 1.46x in FY21. Total debt to GCA of the company improved significantly to 2.34x in FY22 from 33.27x in FY21 due to improvement in gross cash accruals in FY22. Amid declining financial performance, the capital structure and coverage indicators are also expected to have moderated on a y-o-y basis in FY23. The company's ability to achieve a more stable operational performance leading to a steady financial profile will remain critical from credit perspective.

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 (~79% of total sales in FY22) is supported by both domestic and foreign government policies. In order to boost exports from Nepal, Nepal government has announced incentives on exportable goods. Furthermore, on October 2022, GoN has announced to increase the cash subsidy on export incentives for certain products from FY23. Consequently, the export incentives that TSMPL is eligible for has been revised to 4% for exports up to Rs. 500 Mn and 8% thereafter. 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 leading to expansion of profit margin of TSMPL. Given that, the ongoing pressure on government revenues amid declining revenue from import, the timely payment of export incentives could impact the cash flows of TSMPL.

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 Year ended Mid- July,	FY20 (A)	FY21 (A)	FY22 (A)
Income from Operations	1,902	1,800	3,703
PBILDT Margin (%)	2.86	6.58	18.02
Overall Gearing (times)	2.19	2.88	1.27
Interest Coverage (times)	0.70	1.46	7.46
Current Ratio (times)	1.23	1.17	1.51
Total Debt/ Gross Cash Accruals (times)	71.14	33.34	2.34

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	218.96	CARE-NP BB+ [Double B Plus]
Short Term Bank Facilities	Fund Based Limit	1,040.00	CARE-NP A4+ [A Four Plus]
Short Term Bank Facilities	Non-Fund Based Limit	731.00	CARE-NP A4+ [A Four Plus]
Total Facilities		1,989.96	

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