

January 10, 2017

Haranai Sahakari Soot Girni Limited

Instrument*	Rated Amount (in crore)	Rating Action
Fund Based Limits – Term Loan	2.50	Downgraded from [ICRA]BB (stable) to [ICRA]BB- (stable)
Fund Based Limits – Cash Credit	3.55	Downgraded from [ICRA]BB (stable) to [ICRA]BB- (stable)
Total	6.05	

*Instrument Details are provided in Annexure-1

Rating Action

ICRA has downgraded the long term rating from [ICRA]BB (pronounced as ICRA double B)¹ to [ICRA]BB - (pronounced as ICRA double B minus) for the Rs. 3.55 crore cash credit facility and Rs. 2.50 crore term loan of Haranai Sahakari Soot Girni Limited (HSSGL). The outlook on the long term rating is 'Stable'.

Rationale

The revision in rating takes into account decline in operating income and margins over last two fiscals with society reporting net losses in FY2016. The rating continues to factor in the modest scale of operations as also the intensive competition from the domestic spinners leading to limited pricing flexibility of the society. The margins further remain vulnerable to movement of yarn and lint prices which in turn largely remain a function of agro climatic conditions and global demand supply scenario.

The rating however continues to factor in the financial support extended by Government of Maharashtra in the form of long term equity for the entire project. The rating also derives comfort from the low working capital intensity and the comfortable capital structure of the company along with minimal scheduled repayments in the next two fiscals. ICRA also notes that the proposed capex involving installing 21,836 spindles has been deferred considering the current subdued yarn demand in the domestic spinning industry, however the sizeable capex is expected to put pressure on the capital structure, going forward. Further, the rating factors in the long experience of the promoters in the domestic spinning industry.

Going forward, ensuring adequate capacity utilizations as also managing raw material prices will be key credit rating sensitivities

Key rating drivers

Credit Strengths

- Management's long standing experience in spinning industry.
- Financially supported by Government of Maharashtra with share capital assistance through NCDC.
- Comfortable capital structure due to financial support by the Government and low working capital requirements.
- Operational efficiency on account of recent vintage of plant and machinery.
- Low working capital intensity of operations due to low inventory holding and negligible debtors.

¹ For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications

Credit Weakness

- Volatility in cotton and yarn prices; significant competition due to fragmented nature of the industry limiting pricing flexibility
- Muted demand scenario leading to decline in operating income and operating margins over last two fiscals.
- Continuing weak demand scenario in the current fiscal.
- Low value add nature of business
- Exposure to cyclical nature of the industry
- Modest scale of operations.
- Sizeable planned capex; ensuring capacity utilization remain critical

Description of key rating drivers highlighted above:

HSSGL manufactures carded warp cotton yarn of count 20s to 40s and caters to power loom demand mainly in adjoining regions of Maharashtra. While coarser counts ranging from 20s to 30s cater to power loom demand in adjoining Kolhapur, Satara, and Pune region, medium counts in range of 35s to 40s (although produced in small quantities) is generally exported to China and other export destinations

HSSGL in FY'2016 has successfully commissioned the 13,780 spindle project at the project cost of Rs.45.8 crore. The company earlier had planned to commission the second phase involving Rs.37.30 crore in November'2015 but now has deferred the project till FY'2019 in view of the challenging operating environment in the domestic spinning industry. The entire project is funded under the State New Textile Policy 2011-17 of Government of Maharashtra.

The company operating income de –grew in FY'2016 by 6% as compared to FY'2015 primarily due to drop in realizations. The company however expects a realization backed growth in the current fiscal with company currently realizing ~ Rs.161/kg, up from Rs.157/kg in H1'FY'2017. OPM margins declined to ~6% given the decline in operating income.

The capital structure continues to remain comfortable with gearing at 0.19 times in FY'2016 since the debt funded capex has been deferred to FY'2019. Going forward, the capital structure is likely to remain comfortable despite the debt funded capex plans due to strong net worth base and support from the Government. The society continued its cash and carry policy similar to previous fiscals resulting in negligible debtors. The society maintains average cotton inventory of 25 days for smooth flow of operations with balance inventory being WIP stock and yarn

Analytical approach:**Links to applicable Criteria**

Corporate Credit Rating –A Note on Methodology

<http://www.icra.in/Files/Articles/2009-October-Rating-Corp-Rating-Methodology.pdf>

Rating Methodology for Indian Textiles- Spinning

<http://www.icra.in/Files/Articles/Textiles%20Industry%20E2%80%9320Rating%20Methodology.pdf>

About the Company:

HSSGL was registered in 1994 under the Maharashtra Co-operative Society Act, 1960 for setting up a spinning unit of 25,000 ring spindles though it became operational in October 2009. HSSGL is manufacturing carded warp cotton yarn of count 20s to 40s using long staple cotton. The society in Phase I has installed 13,780 spindles which became operational FY'2016. In Phase II, the company intends to take the total spindle count to 35,616 spindles, the said project is expected to be completed and operational in FY'2019.

The company operating income de –grew in FY'2016 by 6% as compared to FY'2015 primarily due to drop in realizations.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years:

Table: Rating History

S.No	Name of Instrument	Current Rating			Chronology of Rating History for the past 3 years			
		Type	Rated amount (Rs. Crores)	Month-year & Rating	Month- year & Rating in FY2015		Month-year & Rating in FY2014	Month-year & Rating in FY2013
				January 2017	April 2015	March 2015	January 2014	January 2013
1	Cash Credit	Long Term	3.55	[ICRA]BB- (Stable)	[ICRA]BB (Stable)	[ICRA]BB (Stable)	[ICRA]BB (Stable)	[ICRA]BB (Stable)
2	Term Loan	Long Term	2.50	[ICRA]BB- (Stable)	[ICRA]BB (Stable)	[ICRA]BB (Stable)	[ICRA]BB (Stable)	[ICRA]BB (Stable)

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1
Details of Instrument

Name of the instrument	Date of issuance	Maturity Date	Size of the issue (Rs. Cr)	Current Rating and Outlook
Cash Credit	-	-	3.55	[ICRA]BB- (Stable)
Term Loan	NA [#]	2018	2.50	[ICRA]BB- (Stable)

[#]NA: Information not available

Source: F&K Agro Private Limited, Bank Sanction Letter



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