

**Rating Update**  
April 01, 2024 | Mumbai**Shahlon Silk Industries Limited****Update as on April 01, 2024**

This update is provided in continuation of the rating rationale below.

The key rating sensitivity factors for the rating include:

**Upward factors:**

- Steady increase in cash accrual, with net cash accrual to total debt ratio increasing more than 1.5 times
- Sharp improvement in the debt protection metrics

**Downward factors:**

- Decline in revenue or operating margin, leading to cash accrual below Rs 14 crore
- Further stretch in the working capital cycle, with GCAs above 260 days.

CRISIL Ratings has a policy of keeping its accepted ratings under constant and ongoing monitoring and review. Accordingly, CRISIL Ratings seeks regular updates from companies on the business and financial performance. CRISIL Ratings is, however, awaiting adequate information from Shahlon Silk Industries Limited (SSIL) which will enable us to carry out the rating review. CRISIL Ratings will continue provide updates on relevant developments from time to time on this credit.

CRISIL Ratings also identifies information availability risk as a key credit factor in the rating assessment as outlined in its criteria 'Information Availability Risk in Credit Ratings'.

**About the Company**

SSIL, incorporated in 2008 manufactures texturised, twisted and sized yarn and grey fabric; it is based in Surat, Gujarat. The company also trades in partially oriented and fully drawn yarn and is a del credere agent for Reliance Industries Ltd. The company is owned and managed by Dhiraj R. Shah, Jayanti R. Shah, Arvind R. Shah, Nitin R. Shah, and Mahendra R. Shah.

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## Rating Rationale

July 19, 2023 | Mumbai

### Shahlon Silk Industries Limited

Long-term rating downgraded to 'CRISIL BB/Stable'; Short-term rating reaffirmed

#### Rating Action

<b>Total Bank Loan Facilities Rated</b>	<b>Rs.151.5 Crore</b>
<b>Long Term Rating</b>	<b>CRISIL BB/Stable (Downgraded from 'CRISIL BB+/Stable')</b>
<b>Short Term Rating</b>	<b>CRISIL A4+ (Reaffirmed)</b>

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1 crore = 10 million

Refer to Annexure for Details of Instruments & Bank Facilities

#### Detailed Rationale

CRISIL Ratings has downgraded its rating on the long-term bank facilities of Shahlon Silk Industries Ltd (SSIL) to '**CRISIL BB/Stable**' from 'CRISIL BB+/Stable'; the short-term rating has been reaffirmed at 'CRISIL A4+'.

The downgrade factors in weak business performance of SSIL may continue to weaken over the medium term. The operating margin dropped to 7.44% in fiscal 2023 from 9.42% in fiscal 2022 due to increase in input price and the limited ability to pass it on to customers; any improvement in the margin will remain a key monitorable. Further, revenue remained stagnant at Rs 308.62 crore in fiscal 2023 (against Rs 313.04 crore in fiscal 2022) due to a slowdown in demand from the global market. Financial risk also remains constrained by high bank limit utilization and lower cushion of cash accruals against repayment obligations.

The ratings continue to reflect the extensive experience of the promoters in the textile industry and above-average capital structure of SSIL. These strengths are partially offset by exposure to average debt protection metrics, volatility in raw material prices, large working capital requirement.

#### Analytical Approach

CRISIL Ratings has considered the standalone business and financial risk profiles of SSIL.

Unsecured loan (Rs 10.44 crore as on March 31, 2023) extended by the promoters has been treated as debt as it is an interest-bearing, need-based fund.

#### Key Rating Drivers & Detailed Description

##### Strengths:

- **Extensive experience of the promoters:** The promoters have more than three decades of experience in the textile industry; their strong understanding of the market dynamics and healthy relationships with customers and suppliers will continue to support the business. Revenue -- estimated at Rs 308.62 crore in fiscal 2023 -- may further grow, driven by customer addition, steady order flow and offtake from the capacity enhancement. Low customer concentration and adequate diversification in the domestic and export profiles will boost the business risk profile.
- **Above-average capital structure:** With networth of Rs 98.87 crore as on March 31, 2023, while gearing improved to 1.35 times from 1.63 times and total outside liabilities to adjusted networth ratio to 1.90 times from 2.04 times.

##### Weaknesses:

- **Exposure to volatility in raw material price:** Since cost of procuring the key raw material (synthetic yarn, fabric, texturized, twisted and sized yarn) accounts for 70-75% of the operating income, even a slight variation in price can

drastically impact the operating margin. Further, the company has limited ability to pass any price hike to customers in a timely manner. Steady improvement in profitability will remain a key monitorable.

- **Average debt protection metrics:** Interest coverage ratio was 1.64 times and net cash accrual to total debt ratio at 0.11 time in fiscal 2023, against 2.00 times and 0.09 time, respectively in fiscal 2022. The metrics may improve over the medium term, in the absence of any large, debt-funded capital expenditure.
- **Large working capital requirement:** Gross current assets (GCAs) were sizeable at 220 days as on March 31, 2023, driven by high debtors of 141 days and huge inventory of 75 days. The working capital is, however, partly supported by payables of 56 days.

#### **Liquidity: Stretched**

Cash accrual, projected at Rs 15.00 crore per annum, will be barely sufficient to meet the yearly debt obligation of Rs 14.72-15.00 crore over the medium term. Bank limit utilisation was around 92% during the 12 months through May 2023. Current ratio stood at 1.43 times on March 31, 2023.

#### **Outlook: Stable**

SSIL will continue to benefit from its established market presence along with the extensive experience and funding support of the promoters.

#### **Rating Sensitivity factors**

##### **Upward factors:**

- Steady increase in cash accrual, with net cash accrual to total debt ratio increasing more than 1.5 times
- Sharp improvement in the debt protection metrics

##### **Downward factors:**

- Decline in revenue or operating margin, leading to cash accrual below Rs 14 crore
- Further stretch in the working capital cycle, with GCAs above 260 days.

#### **About the Company.**

SSIL, incorporated in 2008 manufactures texturised, twisted and sized yarn and grey fabric; it is based in Surat, Gujarat. The company also trades in partially oriented and fully drawn yarn and is a del credere agent for Reliance Industries Ltd. The company is owned and managed by Dhiraj R. Shah, Jayanti R Shah, Arvind R. Shah, Nitin R. Shah, and Mahendra R. Shah.

#### **Key Financial Indicators**

As on / for the period ended March 31		2023	2022
Operating income	Rs crore	308.62	313.04
Reported profit after tax (PAT)	Rs crore	3.78	3.18
PAT margins	%	1.22	1.01
Adjusted debt/adjusted networkth	Times	1.35	1.63
Interest coverage	Times	1.64	1.99

**Any other information:** Not applicable

#### **Note on complexity levels of the rated instrument:**

CRISIL Ratings` complexity levels are assigned to various types of financial instruments and are included (where applicable) in the 'Annexure - Details of Instrument' in this Rating Rationale.

CRISIL Ratings will disclose complexity level for all securities - including those that are yet to be placed - based on available information. The complexity level for instruments may be updated, where required, in the rating rationale published subsequent to the issuance of the instrument when details on such features are available.

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#### **Annexure - Details of Instrument(s)**

ISIN	Name of the instrument	Date of Allotment	Coupon Rate (%)	Maturity Date	Issue size (Rs. Crore)	Complexity Level	Rating assigned with outlook
NA	Cash credit	NA	NA	NA	65	NA	CRISIL BB/Stable
NA	Long-term loan	NA	NA	Mar-26	60	NA	CRISIL BB/Stable
NA	Proposed Fund-Based Bank Limits	NA	NA	NA	5	NA	CRISIL BB/Stable

NA	Bank guarantee	NA	NA	NA	0.5	NA	CRISIL A4+
NA	Foreign exchange forward	NA	NA	NA	1	NA	CRISIL A4+
NA	Letter of credit	NA	NA	NA	6	NA	CRISIL A4+
NA	Letter of credit bill discounting	NA	NA	NA	14	NA	CRISIL A4+

#### Annexure - Rating History for last 3 Years

		Current		2023 (History)		2022		2021		2020		Start of 2020
Instrument	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund Based Facilities	LT/ST	145.0	CRISIL BB/Stable / CRISIL A4+	22-03-23	CRISIL BB+/Stable / CRISIL A4+	11-02-22	CRISIL BB+/Stable / CRISIL A4+	25-05-21	CRISIL BB+/Stable / CRISIL A4+	30-11-20	CRISIL A4+/Watch Developing / CRISIL BB+/Watch Developing	CRISIL BB+/Stable / CRISIL A4+
					--		--	25-02-21	CRISIL A4+/Watch Developing / CRISIL BB+/Watch Developing	--	CRISIL BB+/Stable	
Non-Fund Based Facilities	ST	6.5	CRISIL A4+	22-03-23	CRISIL A4+	11-02-22	CRISIL A4+	25-05-21	CRISIL A4+	30-11-20	CRISIL A4+/Watch Developing	CRISIL A4+
					--		--	25-02-21	CRISIL A4+/Watch Developing	--	--	

All amounts are in Rs.Cr.

#### Annexure - Details of Bank Lenders & Facilities

Facility	Amount (Rs.Crore)	Name of Lender	Rating
Bank Guarantee	0.5	Bank of Baroda	CRISIL A4+
Cash Credit	40	The Cosmos Co-Operative Bank Limited	CRISIL BB/Stable
Cash Credit	25	Bank of Baroda	CRISIL BB/Stable
Foreign Exchange Forward	1	The Cosmos Co-Operative Bank Limited	CRISIL A4+
Letter of Credit	1	Bank of Baroda	CRISIL A4+
Letter of Credit	5	The Cosmos Co-Operative Bank Limited	CRISIL A4+
Letter of Credit Bill Discounting	14	The Cosmos Co-Operative Bank Limited	CRISIL A4+
Long Term Loan	27	Bank of Baroda	CRISIL BB/Stable
Long Term Loan	33	The Cosmos Co-Operative Bank Limited	CRISIL BB/Stable
Proposed Fund-Based Bank Limits	5	Not Applicable	CRISIL BB/Stable

#### Criteria Details

Links to related criteria
<a href="#">CRISILs Approach to Financial Ratios</a>
<a href="#">Rating criteria for manufacturing and service sector companies</a>
<a href="#">CRISILs Bank Loan Ratings - process, scale and default recognition</a>
<a href="#">CRISILs Bank Loan Ratings</a>
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