

Press Release

24 April, 2017

Sakthi Vinayaga Spinning Mills Private Limited

Rating Assigned (Suspension Revoked)

Total Bank Facilities Rated *	Rs.8.00 Cr
Long Term Rating	SMERA B-/ Outlook: Stable

Refer Annexure for details

Rating Rationale

SMERA has revoked the suspension of rating on the above mentioned bank facility of Sakthi Vinayaga Spinning Mills Private Limited (SVSMPL) and assigned rating of **'SMERA B-' (read as SMERA B minus)**. The outlook is **'Stable'**.

Sakthi Vinayaga Spinning Mills Private Limited (SVSMPL), is a Tamil Nadu-based company incorporated in 2004. The company is engaged in the spinning of cotton yarn and is led by Ms Suganthi Jambulingam (Managing Director) along with her daughters, Ms Jambulingam Suganeswari, Ms Jambulingam Priyanka and Ms Jambulingam Jothy. The company has 16224 spindles with installed capacity of 1026 MTPA to manufacture cotton yarn of 40s and 80s count.

Key Rating Drivers

Strengths

- **Long track record of operations**

SVSMPL was incorporated in 2004 and led by Mr. Manickam Chettiar Jambulingam. However, after his demise, the business was taken over by Ms. Suganthi Jambulingam.

Weaknesses

- **Small scale of operations**

SVSMPL operates on a small scale with operating income of Rs.24.15 cr for FY2016 compared to Rs.24.45 cr in FY2015. The company achieved revenue of ~Rs.16.00 cr from April 2016 - February 2017. The revenue registered a decline in FY2017 due to absence of operations during September 2016 - January 2017 due to demise of one of the directors and change in management. The company will continue to operate on a small scale due to the lack of experience of the new promoters.

- **Weak financial risk profile**

The financial risk profile of the company is weak marked by low net worth of Rs.1.04 cr as on March 31, 2016 compared to Rs. 1.00 cr as on March 31, 2015. The gearing (debt-equity ratio) stood high at 14.49 times as on March 31, 2016 as against 16.01 times as on March 31, 2015. Total debt stand at Rs. 15.14 cr which includes long term borrowing of Rs. 0.63 cr, unsecured loans from related parties of Rs. 5.85 cr and short term borrowing of Rs. 8.12 cr as on March 31, 2016. The interest coverage ratio (ICR) stood at 1.93 times for FY2016.

- **Susceptibility of operating margins to raw material prices fluctuation**

Prices of raw cotton are stated by the government through Minimum Support Price (MSP). However, the purchase price depends on the prevailing demand-supply situation which restricts bargaining power with the suppliers as well. Any adverse movement of cotton prices further impacts profitability. However, the operating margins stood at 8.82 percent for FY2016 as against 11.14 percent in FY2015.

- **Working capital intensive operations**

The operations are working capital intensive marked by Gross Current Assets Days of 193 in FY2016 as against GCA days of 239 in FY2015. This was on account of high inventory of 157 days in FY2016 (PY: 223 days).

- **Lack of experience of the management**

Currently, the operations are led by Ms Suganthi Jambulingam along with her daughters, Ms Jambulingam Suganeswari, Ms Jambulingam Priyanka and Ms Jambulingam Jothy who lack experience in the textile business.

Analytical Approach

SMERA has considered the standalone financials of Sakthi Vinayaga Spinning Mills Private Limited (SVSMPL).

Outlook: Stable

SMERA believes that SVSMPL will continue to maintain a stable outlook over the medium term on account of the company's established market position in the cotton yarn industry. The outlook may be revised to 'Positive' in case the company registers substantial increase in profitability margins supported by healthy revenue growth or improvement in capital structure resulting from infusion of unsecured loans by the promoters. Conversely, the outlook may be revised to 'Negative' in case of sharp decline in company's profitability margins or significant deterioration in the financial risk profile due to debt-funded capital expenditure or elongated working capital cycle.

About the Rated Entity - Key Financials

In FY2015-16, the company reported profit after tax (PAT) of Rs. 0.04 cr on operating income of Rs.24.15 cr as against net loss of Rs.0.05 cr on operating income of Rs. 24.45 cr in the previous year. The net worth stood at Rs.1.04 cr as on March 31, 2016 as compared to Rs. 1.00 cr in the previous year.

Status of non-cooperation with previous CRA (if applicable)

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.smera.in/criteria-default.htm>
- Manufacturing Entities - <https://www.smera.in/criteria-manufacturing.htm>
- Financial Ratios And Adjustments - <https://www.smera.in/criteria-fin-ratios.htm>
- Complexity Level Of Financial Instruments - <https://www.smera.in/criteria-complexity-levels.htm>

Note on complexity levels of the rated instrument
<https://www.smera.in/criteria-complexity-levels.htm>
Rating History (Upto last three years)

Name of Instrument /Facilities	FY2017			FY2016		FY2015		FY2014	
	Scale	Amount (Rs. Crore)	Rating with Outlook	Date	Rating	Date	Rating	Date	Rating
Proposed Long Term Loan	Long Term	0.57	SMERA B- / Stable	15 Nov 2016	SMERA B- / Stable	17 Aug 2015	SMERA B- / Stable	-	-
Proposed Cash Credit	Long Term	5.00	SMERA B- / Stable	-	-	-	-	-	-
Proposed	Long Term	2.43	SMERA B- / Stable	-	-	-	-	-	-

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Proposed Long Term Loan	Not Applicable	Not Applicable	Not Applicable	0.57	SMERA B- / Stable
Proposed Cash Credit	Not Applicable	Not Applicable	Not Applicable	5.00	SMERA B- / Stable
Proposed	Not Applicable	Not Applicable	Not Applicable	2.43	SMERA B- / Stable

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ABOUT SMERA

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