

Press Release

Sakthi Vinayaga Spinning Mills Private Limited

June 28, 2018



Rating Upgraded

Total Bank Facilities Rated*	Rs. 8.00 Cr.
Long Term Rating	ACUITE B / Outlook:Stable (upgraded from ACUITE B-)

* Refer Annexure for details

Rating Rationale

Acuité has upgraded long-term rating to '**ACUITE B**' (**read as ACUITE B**) from '**ACUITE B-**' (**read as ACUITE B minus**) on the Rs.8.00 crore bank facilities of Sakthi Vinayaga Spinning Mills Private Limited. The outlook is '**Stable**'.

The upgrade is driven by growth in revenue and increase in net worth in FY2018. There has been improvement in gearing levels and other debt protection metrics.

Sakthi Vinayaga Spinning Mills Private Limited (SVSPL) is a Tamil Nadu based company incorporated in 2004. The company is engaged in spinning of cotton yarn. The company is promoted 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 having installed capacity of 1026 MTPA to manufacture cotton yarn of 40 to 80 counts.

Key Rating Drivers

Strengths

- **Long track record of operations**

SVSPL incorporated in 2004 is engaged in spinning of cotton yarn. The business has been taken over by Ms. Suganthi Jambulingam after the demise of Late Mr. Manickam Chettiar Jambulingam. The operations are managed by Ms. Suganthi Jambulingam along with her daughters.

Weaknesses

- **Small scale of operation in highly competitive and fragmented industry**

SVSPL operates on a small scale with operating income of Rs.22.45 crore for FY2018 compared to Rs.18.76 crore in FY2017. The revenue has declined in FY2017 as the company did not operate during September 2016-January 2017 due to demise of one of the Directors.

- **Weak financial risk profile**

The financial risk profile of SVSPL is weak marked by low net worth of Rs.1.13 crore as on March 31, 2017 compared to Rs.1.04 crore as on March 31, 2016. The gearing (debt-equity ratio) stood at 5.36 times as on March 31, 2017 compared to 14.49 times as on March 31, 2016. The interest coverage ratio (ICR) stood at 2.39 times for FY2017.

- **Profitability is susceptible to volatility in raw material prices**

Prices of raw cotton are stated by 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 the profitability.

Analytical Approach

Acuité has considered the standalone and financial risk profile of SVSPL to arrive at the rating.

Outlook: Stable

Acuité believes that SVSPL will 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 its profitability margins supported by healthy revenue growth or significant improvement in its capital structure resulting from considerable unsecured loan infusion 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 elongated working capital cycle.

About the Rated Entity - Key Financials

	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	18.76	24.15	24.45
EBITDA	Rs. Cr.	1.13	2.13	2.72
PAT	Rs. Cr.	0.03	0.04	-0.05
EBITDA Margin	(%)	6.00	8.82	11.14
PAT Margin	(%)	0.17	0.17	-0.21
ROCE	(%)	4.34	7.03	16.96
Total Debt/Tangible Net Worth	Times	5.36	14.49	16.01
PBDIT/Interest	Times	2.39	1.93	1.94
Total Debt/PBDIT	Times	5.33	7.10	5.90
Gross Current Assets (Days)	Days	85	193	239

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

None

Any other information

Acuité is yet to receive the latest No Default Statement (NDS) from the rated entity, despite repeated requests and follow-ups.

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/criteria-complexity-levels.htm>

Rating History (Up to last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Crore)	Ratings/Outlook
24-Apr-2017	Proposed Long Term Loan	Long Term	0.57	ACUITE B- / Stable (Assigned)
	Proposed Cash Credit	Long Term	5.00	ACUITE B- / Stable (Assigned)
	Proposed Long Term Loan	Long Term	2.43	ACUITE B- / Stable (Assigned)
15-Nov-2016	Term Loan	Long Term	8.00	ACUITE B- / Stable (Suspended)
17-Aug-2015	Term Loan	Long Term	8.00	ACUITE B- / Stable (Assigned)

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
Proposed Long Term Loan	Not Applicable	Not Applicable	Not Applicable	0.47	ACUITE B / Stable (Upgrade)
Proposed Cash Credit	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE B / Stable (Upgrade)
Proposed	Not Applicable	Not Applicable	Not Applicable	2.53	ACUITE B/ Stable (Upgrade)

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About Acuité Ratings & Research:

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