

Press Release

SAKTHI VINAYAGA SPINNING MILLS PRIVATE LIMITED

June 07, 2019



Rating Reaffirmed

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

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed long-term rating of '**ACUITE B**' (**read as ACUITE B**) on the Rs. 8.00 crore bank facilities of SAKTHI VINAYAGA SPINNING MILLS PRIVATE LIMITED (SVSPL). The outlook is '**Stable**'.

The rating continues to reflect experienced management and long track record of operations; however, the rating is constrained by working capital intensive operations, below average financial risk profile and susceptibility of profitability to volatility in raw material prices.

Sakthi Vinayaga Spinning Mills Private Limited (SVSPL) is a Tamil Nadu based company incorporated in the year 2004 and is engaged in spinning of cotton yarn. The company has 16,224 spindles having installed capacity of 1026 MTPA to manufacture cotton yarn of 40 to 80 counts.

Analytical Approach

Acuité has considered the standalone business and financial risk profile of Sakthi Vinayaga Spinning Mills Private Limited to arrive at this rating.

Key Rating Drivers

Strengths

- **Experienced management**

The managing director of the company, Mrs. Suganthi Jambulingam possesses more than two decades of experience in the textile industry. The other directors of the company, Mrs. Suganeswari Jambulingam, Ms. Priyanka Jambulingam and Ms. Jothy Jambulingam possess experience of nearly a decade in this industry. The experience of the management has helped the company to maintain healthy relation with their existing customers. Acuité believes that directors' experience and their relations with stakeholders are expected to support in maintaining its business risk profile over the medium term.

Weaknesses

- **Working Capital Intensive Operations**

The company is having working capital intensive nature of operations marked by high Gross Current Asset Days (GCA) of 166 days in FY2019 (Provisional) as against 174 days in FY2018. The reason for the same is due to high inventory days of about 3-4 months as it is a seasonal crop. The manufacturing operations of cotton yarn are carried out throughout the year, though major raw material availability is seasonal leading to working capital intensive operations; this leads to around 98 percent utilisation of its working capital limits during peak season, though moderates in the other period partly supported by regular infusion of unsecured loans.

- **Below-average financial risk profile**

The financial risk profile of the company is below-average reflected in high Gearing (Debt to Equity ratio) and total outside liabilities to total networth (TOL/TNW). Its gearing is at 3.67 times as on 31 March, 2019 (Provisional) as against 3.62 times as on 31 March, 2018; further, its TOL/TNW is high at 4.86 times as on 31 March, 2019 (Provisional) as against 4.75 times in FY2018. This is on account of modest net worth and high dependence on external funds to fund its capital expenditure and working capital. The company has modest networth of Rs. 2.60 crore in FY2019 (Provisional) as against Rs. 2.50 crore in FY2018. Interest Coverage Ratio (ICR) is moderate at 2.20 times in FY2019 (Provisional) as against 2.36 times in FY2018. Acuité believes that with the modest accruals, the financial risk

profile is expected to below-average over the medium term.

• Susceptibility of profitability to volatility in raw material prices

The prices of cotton are highly dependent on agro-climatic conditions and the purchase price of cotton depends on the prevailing demand-supply situation which limits bargaining power with suppliers as well. The same has resulted in decline in operating profitability from 8 percent in FY2016 to 4.5 percent in FY2019 (Provisional). Acuité believes that SVSPL should be able to maintain its operating profitability around existing levels notwithstanding the volatility in prices of its key inputs, on the back of its established relationship with suppliers.

Liquidity

Liquidity of the company is below average marked by working capital intensive operations and modest accruals to repayment obligations. It has reported cash accruals of Rs. 0.68 crore in FY2019 (Provisional) as against Rs. 0.73 crore in FY2018. Accruals over the medium term are expected around Rs. 0.8 crore – 0.9 crore against which its repayment obligations are around Rs. 0.17 crore – Rs. 0.11 crores over the medium term. Operations are working capital intensive reflected in high gross current assets at 166 days in FY2019 (Provisional) as against 174 days in FY2018; the same has led to high utilisation of its bank lines at about 98 per cent over twelve months through March 31, 2019.

Outlook: Stable

Acuité believes that SVSPL will continue to benefit over the medium term on account of the experience of the management in the 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. 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	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	21.15	18.76	24.05
EBITDA	Rs. Cr.	1.17	1.12	2.14
PAT	Rs. Cr.	0.03	0.03	0.07
EBITDA Margin	(%)	5.53	5.97	8.88
PAT Margin	(%)	0.15	0.17	0.29
ROCE	(%)	5.69	3.84	13.30
Total Debt/Tangible Net Worth	Times	3.62	2.43	6.05
PBDIT/Interest	Times	2.36	2.40	1.93
Total Debt/PBDIT	Times	7.11	5.35	7.09
Gross Current Assets (Days)	Days	174	126	206

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

None

Any other information

None

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 (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
28-Jun-2018	Term loan	Long Term	0.57	ACUITE B/ Stable
	Cash Credit	Long Term	5.00	ACUITE B / Stable
	Proposed Bank facility	Long Term	2.43	ACUITE B / Stable
24-Apr-2017	Proposed Term loan	Long Term	0.57	ACUITE B- / Stable
	Proposed Cash Credit	Long Term	5.00	ACUITE B- / Stable
	Proposed Bank facility	Long Term	2.43	ACUITE B- / Stable
15-Nov-2016	Term Loan	Long Term	8.00	ACUITE 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
Cash Credit	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE B / Stable
Term loans	Not Applicable	Not Applicable	Not Applicable	0.57	ACUITE B/ Stable
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	2.43	ACUITE B/ Stable

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About Acuité Ratings & Research:

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