Press Release

Sree Ayyanar Spinning and Weaving Mills Private Limited (Sree Ayyanar)

30 October, 2017

Rating Assigned

Total Bank Facilities Rated*	Rs. 69.00 Cr
Long Term Rating	SMERA BB+/Stable (Assigned)
Short Term Rating	SMERA A4+ (Assigned)

**Refer Annexure for details*

Rating Rationale

SMERA has assigned long-term rating of **'SMERA BB+' (read as SMERA double B plus)** and short term rating of **'SMERA A4+' (read as SMERA double A four plus)** on the Rs. 69.00 crore bank facilities of Sree Ayyanar Spinning and Weaving Mills Private Limited (Sree Ayyanar). The outlook is **'Stable'**.

Sree Ayyanar Spinning and Weaving Mills Private Limited (Sree Ayyanar), the erstwhile Sree Ayyanar Spinning and Weaving Mills Limited was initially incorporated in 1962 as a public limited company. Later, in March 2017 the constitution was changed to private limited. Sree Ayyanar is part of the Pioneer Group of companies with interests in a range of industries including textiles, wind energy, chemicals, infrastructure development, printing and packaging. The promoters, Mr. K. A. Sankaralingam and Mr. K. A. Arunchalam, took over Sree Ayyanar in 1980.

Sree Ayyanar is engaged in the manufacturing of cotton, polyester and blended yarn of count Ne 40's to 200's. Cotton and blended yarn is used in the manufacturing of home décor, furnishing and shirtings while polyester yarn is used to manufacture sewing thread. Cotton yarn contributes around 85 percent of the revenue with the remaining derived from synthetic yarn. Cotton fibre is procured from local ginning companies, traders in USA, Spain Turkmenistan, Israel, Egypt among others and supplied to domestic textile manufacturers. The company also exports the same to European Union and South-East Asian countries. Sree Ayyanar has two manufacturing facilities located at Virudhunagar and Madurai with total installed capacity of 73,168 spindles apart from three open end spinning machines.

List of key rating drivers and their detailed description

Strengths:

Established operational track record and experienced promoters

Sree Ayyanar has been manufacturing cotton, polyester and blended yarn for the last 37 years. The company caters to textile manufacturing companies across India and overseas (European Union and South East Asian countries). The promoters, Mr. K. A. Sankaralingam and Mr. K. A. Arunchalam possess more than three decades of experience in the industry which has helped maintain long term relations with customers and suppliers.

Comfortable financial risk profile

The financial risk profile is comfortable marked by adjusted tangible net worth of Rs. 27.78 crore as on 31 March, 2017 as against Rs. 26.02 crore as on 31 March, 2016. The net worth includes interest bearing subordinated unsecured loan of Rs. 9.44 crore from promoters as quasi equity. The adjusted gearing (total debt to adjusted net worth) stood at 1.57 times as on 31 March, 2017 as against 1.85 times in the previous year. The total debt of Rs. 43.48 crore consists of working capital facilities of Rs. 31.20 crore and long term debt of Rs.12.28 crore as on 31 March, 2017. The interest coverage ratio (ICR) stood at

1.74 times and Debt Service Coverage Ratio (DSCR) at 1.07 times for FY2017. The Net cash accurals to total debt (NCA/TD) stood at 0.14 times for FY2017 as against 0.06 times in the previous year.
SMERA expects the financial risk profile to improve on account of steady profitability and repayment of long term borrowing coupled with absence of major debt funded capex.

Weaknesses

Uneven revenues

Sree Ayyanar reported uneven revenue trend with operating income of Rs. 108.46 crore for FY2017 as against Rs. 96.03 crore for FY2016 and Rs. 105.10 crore for FY2015. Further, as informed by the management the company registered operating income of Rs. 54.00 crore from April, 2017 to September, 2017. The uneven revenues are on account of fluctuations in sales realisations due to change in product mix i.e. yarn with different count size and blending.

Moderate working capital intensity

The operations are moderately intensive evident from the gross current asset days of 161 for FY2017 as against 195 in the previous year. This is mainly on account of stretched inventory and debtor days. Further, the average cash credit limit utilisation during the last six months ended 30 September, 2017 stood at 96 percent.

Highly competitive and fragmented industry

India's spinning industry is fragmented. Cotton yarn being a commoditised product is exposed to substitution risk from polyester filament yarn and other non-cotton spun yarn. Besides, fluctuations in the prices of crude oil (raw material for polyester) will also be a driving factor for demand of cotton yarn.

Susceptibility of profitability to volatility in raw material prices and forex rates

Raw cotton and power are major cost components for cotton yarn spinning. The profitability of cotton yarn spinners is susceptible to fluctuations in the prices of raw cotton, continuous availability of cheap power, agro climatic conditions and demand supply situation. The company reported EBITDA margin of 11.58 percent for FY2017 as against 9.67 percent in the previous year. The improvement in margins is mainly on account of savings in power cost which constituted around 12.48 percent of the total sales in FY2017 as against 18.72 percent in the previous year.

Further, the company imports around 60 percent of its total purchases from USA, Spain, Turkmenistan, Israel, Egypt etc. and exports around 35 percent of its total sales to the European Union and South East Asia. While the company enjoys natural hedge to the extent of its exports, it is exposed to risk related to the unhedged part. As a result the profitability is exposed to adverse fluctuations in raw material prices and forex rates for its unhedged imports and exports.

Analytical approach: SMERA has considered the standalone business and financial risk profile of the company for arriving at the rating.

Applicable Criteria

- Manufacturing Entities–https://www.smera.in/criteria-manufacturing.htm
- Default Recognition - https://www.smera.in/criteria-deafult.htm
- Application of Financial Ratios and Adjustments - https://www.smera.in/criteria-fin-ratios.htm

Outlook: Stable

SMERA believes that Sree Ayyanar will maintain a stable outlook over the medium term on account of its established presence in the textile industry and experienced management. The outlook may be revised to 'Positive' in case the company registers significant growth in revenue and profitability while improving financial its financial risk profile and liquidity position. Conversely, the outlook may be revised to 'Negative' in case of a steep decline in revenue, profitability or significant deterioration in the financial risk profile, liquidity position. Any debt funded capex undertaken by the company or elongation of the working capital cycle may also entail a 'Negative' outlook.

About the Rated Entity –Key Financials

For FY2016-17, Sree Ayyanar reported profit after tax (PAT) of Rs. 1.76 crore on operating income of Rs. 108.46 crore compared with net loss of Rs. 1.61 crore on operating income of Rs. 96.03 crore for FY2015-16. The adjusted tangible net worth stood at Rs. 27.78 crore as on 31 March, 2017 compared with Rs. 26.02 crore as on 31 March, 2016.

Status of non-cooperation with previous CRA (if applicable): Not Applicable

Any other information: Not Applicable

Rating History for the last three years: Not applicable

***Annexure – Details of instruments rated:**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/ Outlook
Cash credit	N.A	N.A	N.A	20.90#	SMERA BB+/Stable (Assigned)
Cash Credit	N.A	N.A	N.A	9.10^	SMERA BB+/Stable (Assigned)
Term Loan I	N.A	N.A	March, 2022	7.11	SMERA BB+/Stable (Assigned)
Term Loan II	N.A	N.A	June, 2019	2.10	SMERA BB+/Stable (Assigned)
Term Loan III	N.A	N.A	June, 2019	1.05	SMERA BB+/Stable (Assigned)
Bill Discounting	N.A	N.A	N.A	5.00	SMERA A4+ (Assigned)
Letter of Credit	N.A	N.A	N.A	14.60	SMERA A4+ (Assigned)
Letter of Credit	N.A	N.A	N.A	6.40	SMERA A4+ (Assigned)
Bank Guarantee	N.A	N.A	N.A	1.50	SMERA A4+ (Assigned)
Proposed Fund Based Facility	N.A	N.A	N.A	1.24	SMERA BB+/Stable (Assigned)

#Includes sublimit of Packing Credit to the extent of Rs. 5.00 crore and Packing Credit in Foreign Currency to the extent of Rs. 3.50 crore.

^Includes sublimit of Packing Credit /Packing Credit in Foreign currency to the extent of Rs. 1.50 crore

Note on complexity levels of the rated instrument:
https://www.smera.in/criteria-complexity-levels.htm

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ABOUT SMERA

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