

## Press Release

### Sree Ayyanar Spinning and Weaving Mills Private Limited

March 23, 2019



Rating Downgraded and Reaffirmed

<b>Total Bank Facilities Rated*</b>	Rs. 69.00 Cr.
<b>Long Term Rating</b>	ACUITE BB / Outlook: Stable (Downgraded from ACUITE BB+/Stable)
<b>Short Term Rating</b>	ACUITE A4+

\* Refer Annexure for details

### Rating Rationale

Acuite has downgraded the long-term rating to '**ACUITE BB**' (read as **ACUITE BB**) from **ACUITE BB+** and re-affirmed the short term rating at '**ACUITE A4+**' (read as **ACUITE 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**'.

The rating downgrade reflects volatile revenues, declining profitability and lower accruals vis-à-vis obligations. Sree Ayyanar's revenues though improved in FY2017 to Rs.108.5 crores from Rs.96.03 crores in FY2016, however declined to Rs.92.8 crores in FY2018; the revenues in FY2019 are also expected to be range bound of Rs.95-98 crores; for 9MFY2019, Sree Ayyanar reported revenues of Rs.74.41 crore. Besides the volatile revenues, profitability has dipped sharply to 8.2 per cent in FY2018 against 11.6 per cent lead to net loss of Rs.2.4 crores in FY2018. The dip in the operating margins is owing to sharp fluctuations in raw material prices, and its limited flexibility to pass on fully to the customers. This lead to lower cash accruals to meet its repayment obligations in FY2018. Improvement of the revenues and profitability are key rating sensitivity factors. The ratings also factors in below average financial risk profile, working capital intensive operations and modest scale of operations within the industry. However, the rating continues to reflect extensive industry experience of the promoters and long track record of operations.

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. Arunachalam, 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 100's. 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. The company sells both in domestic and export markets of 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. Sree Ayyanar has 10 megawatts (MW) captive windmills (which meets 55% of the power requirements).

### Analytical Approach

Acuite has considered the standalone business and financial risk profiles of Sree Ayyanar to arrive at this rating.

### Key Rating Drivers

#### Strengths

- **Extensive experience of management**

Sri Ayyanar is managed by Mr Balakrishnan Prabakaran, Mr. Sankaralingam Annamalai, Mr. K.A. Arunachlam along with other Directors. All the promoter Directors are vintage people with experience of over two decades in the textile industry. This helped to build healthy relationship with its suppliers and customers to ensure a steady raw material supply and repeat business. Further, to better

integrate its operations and improve efficiencies, Sree Ayyanar over a period has setup about 10mega-watt of wind mill power which supports about 55 per cent of its power requirement. Acuite believes that Sri Ayyanar's longstanding presence, proximity to the cotton growing area, is expected to support in sustaining the operations and business risk profile over the medium term.

- **Moderate financial risk profile**

The financial risk profile is moderate marked by moderate gearing (debt-to-equity), moderate total outside liabilities to tangible network (TOL/TNW) though constrained by weak debt protection metrics. The gearing is moderate at 1.49 times as on March 31, 2018 as against 1.57 times in FY2017. TOL/TNW is moderate at 2.44 times in FY2018, marginal improvement from 2.61 times in FY2017. Its net worth is modest at Rs.30.19 crore in FY2018 (including quasi equity of Rs.14.24 crores), as against Rs.27.78 crore in FY2017; the company has reported net losses of Rs.2.39 crores in FY2018 due to volatile raw material prices and limited flexibility to pass on the same. Despite the same, network has improved owing to infusion of unsecured loans (in the nature of quasi equity) by promoters of about 4.80 Crs in FY2018. The company reported cash accruals of Rs.2.31 crores against Rs.6.03 crores in FY2017; this lead to weak debt protection metrics of: interest coverage and net cash accruals to total debt of 1.02 and 0.05 times in FY2018 vis-à-vis 1.74 and 0.14 times in FY2017. Sree Ayyanar historically undertakes marginal capex of Rs.3-4 crores for replacement or upgradation of plant and machinery. Acuite believes that with moderate accruals to repayment obligations, regular capex and timely support in the form of unsecured loans / quasi equity, the financial risk profile is expected to improve over the medium term.

### **Weaknesses**

- **Uneven revenues and volatile profitability**

Sree Ayyanar's revenues hover around Rs.96 - 108 crores over the past three years; for 9MFY2019, it has reported revenues of about Rs.74.4 crores and expecting revenues of around Rs.100 crores for FY2019. Further, its operating margins are so volatile in the range of 11.6 - 8.2 per cent. This lead to the company reporting net losses in FY2018 and 2016. Volatile revenues are owing to fluctuations in selling prices as corresponded by volatile raw material prices, and stagnant production capacity. Further, limited flexibility to pass on the price changes also resulted in volatile profitability. In the absence of any significant capex plans to enhance the production capacity, the revenue profile remains at similar levels, with profitability exposed to price fluctuations.

- **Working capital intensive operations**

The company has high working capital intensive nature of its operations as evident from its Gross Current Assets (GCA) of 203 days as on March 31, 2018 as against 161 days as on March 31, 2017; high GCA is owing to high inventory levels increased to 137 days in FY2018 as against 99 days in FY2017; Debtor days stood at 30-45 days and payable days about three - four months historically. High working capital intensity lead to high utilisation of its working capital limits at about 95 percent over the past six months ended Jan 2019. As the raw materials are seasonally available; however, manufacturing and sales operations are carried out throughout the year leading to working capital intensive operations throughout the period.

- **Highly competitive and fragmented industry**

Sree Ayyanar operates in textile spinning industry which is highly fragmented. The Indian textile industry is highly competitive and marked by presence of large number of unorganised and organised players. Further, industry has low entry barriers, thereby putting pressure on bargaining power with customers

### **Liquidity Position:**

Sree Ayyanar has moderate liquidity marked by moderate net cash accruals to its maturing debt obligations. Sree Ayyanar reported cash accruals of Rs.2.31 crores in FY2018 against its repayment obligations of Rs.5.12 crores; shortfall was met by infusion of unsecured loans / quasi equity. For 2019-21, the cash accruals are estimated in the range of Rs.5-6 crores, against which the repayment obligations are about Rs.3.3 crores leaving marginal cushion. However, the same is expected to be absorbed for modest and regular capex of about Rs.3 crores and high working capital intensive operations with GCA of about 203 days in FY2018; its working capital limits were highly utilised at about 95 percent during the last 6-month period ended January 2019. Also stretching its creditors with payable days of about 3-4 months leads to weak current ratio of below 1 time historically. Acuite believes that the liquidity profile continues to be moderate supported by expected improvement in profitability and cash accruals besides promoters' flexibility to support by way of unsecured loans on need basis.

### Outlook: Stable

Acuite believes that Sree Ayyanar will continue to maintain 'Stable' outlook over the medium term from its promoters' industry experience. The outlook may be revised to 'Positive' if the company reports substantial growth in its operating revenues while improving its profitability and cash accruals. Conversely, the outlook may be revised to 'Negative' in case of any stretch in its working capital cycle or any sharp decline in its profitability and accruals leading to deterioration of its financial risk profile and liquidity profile.

### About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	92.83	108.46	96.03
EBITDA	Rs. Cr.	7.63	12.56	9.28
PAT	Rs. Cr.	-2.39	1.76	-1.61
EBITDA Margin	(%)	8.22	11.58	9.67
PAT Margin	(%)	-2.58	1.62	-1.67
ROCE	(%)	4.50	10.96	7.01
Total Debt/Tangible Net Worth	Times	1.49	1.57	1.85
PBDIT/Interest	Times	1.02	1.74	1.37
Total Debt/PBDIT	Times	5.45	3.35	4.87
Gross Current Assets (Days)	Days	203	161	195

### 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
02-Jan-2019	Cash Credit	Long Term	20.90 <sup>#</sup>	ACUITE A4+ (Indicative)
	Cash Credit	Long Term	9.10 <sup>^</sup>	ACUITE BB+ (Indicative)
	Term Loan	Long Term	7.11	ACUITE A4+ (Indicative)
	Term Loan	Long Term	2.10	ACUITE BB+ (Indicative)
	Term Loan	Long Term	1.05	ACUITE BB+ (Indicative)
	Bills Discounting	Short Term	5.00	ACUITE A4+ (Indicative)
	Letter of Credit	Short Term	14.60	ACUITE BB+ (Indicative)
	Letter of Credit	Short Term	6.40	ACUITE A4+ (Indicative)
	Bank Guarantee	Short Term	1.50	ACUITE BB+ (Indicative)
	Proposed Long Term Loan	Long Term	1.24	ACUITE BB+ (Indicative)

30-Oct-2017	Cash Credit	Long Term	20.90 <sup>#</sup>	ACUITE BB+ / Stable (Assigned)
	Cash Credit	Long Term	9.10 <sup>^</sup>	ACUITE BB+ / Stable (Assigned)
	Term Loan	Long Term	7.11	ACUITE BB+ / Stable (Assigned)
	Term Loan	Long Term	2.10	ACUITE BB+ / Stable (Assigned)
	Term Loan	Long Term	1.05	ACUITE BB+ / Stable (Assigned)
	Bills Discounting	Short Term	5.00	ACUITE A4+ (Assigned)
	Letter of Credit	Short Term	14.60	ACUITE A4+ (Assigned)
	Letter of Credit	Short Term	6.40	ACUITE A4+ (Assigned)
	Bank Guarantee	Short Term	1.50	ACUITE A4+ (Assigned)
	Proposed Long Term Loan	Long Term	1.24	ACUITE BB+ / Stable (Assigned)

**\*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	20.90 <sup>#</sup>	ACUITE BB / Stable (Downgraded from ACUITE BB+/Stable)
Term loans	Not Applicable	Not Applicable	Not Applicable	4.28	ACUITE BB / Stable (Downgraded from ACUITE BB+/Stable)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	9.10 <sup>^</sup>	ACUITE BB / Stable (Downgraded from ACUITE BB+/Stable)
Term loans	Not Applicable	Not Applicable	Not Applicable	5.55	ACUITE BB / Stable (Downgraded from ACUITE BB+/Stable)
Term loans	Not Applicable	Not Applicable	Not Applicable	4.17	ACUITE BB / Stable (Downgraded from ACUITE BB+/Stable)
Letter of credit	Not Applicable	Not Applicable	Not Applicable	18.60	ACUITE A4+ (Reaffirmation)
Letter of credit	Not Applicable	Not Applicable	Not Applicable	6.40	ACUITE A4+ (Reaffirmation)
Bills Discounting	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE A4+ (Withdrawn)
Proposed Fund Based Facility	Not Applicable	Not Applicable	Not Applicable	1.24	ACUITE BB (Withdrawn)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	1.50	ACUITE A4+ (Withdrawn)

<sup>#</sup> includes sublimit of PC to the extent of Rs.5.00 crore and PCFC to the extent of Rs.3.50 crore.

<sup>^</sup>Includes sublimit of PC /PCFC to the extent of Rs.1.50 crore.

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### About Acuité Ratings & Research:

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