

## Press Release

Sree Ayyanar Spinning and Weaving Mills Private Limited

November 05, 2020

Rating Downgraded



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

\* Refer Annexure for details

### Rating Rationale

Acuite has downgraded the long-term rating to '**ACUITE BB-**' (read as **ACUITE double B minus**) from '**ACUITE BB**' (read as **ACUITE double B**) and reaffirmed the short term rating of '**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 or SAM). The outlook is '**Stable**'.

The downgrade reflects continued deterioration in business and financial risk profile on the back of lower than expected revenue and continued net losses during the last three in fiscals ended 2020 (provisional) and weakening debt protection metrics. Revenue growth and profitability are expected to remain subdued in fiscal 2021 due to pandemic related disruptions. Growth in revenue and profitability shall remain a major rating sensitivity factor.

Sree Ayyanar Spinning and Weaving Mills Private Limited (SAM), one of the oldest companies in the Pioneer Group. SAM was incorporated in 1962 located at Virudhunagar district of Tamil Nadu. The company currently operates with an installed capacity of 67,744 spindles and 480 rotors for manufacturing cotton yarn. The company produces counts ranging from 40s to 100s with moderate presence in value-added products such as compact yarn. Over the years, SAM has invested steadily in windmills and it has an installed capacity of 11.25 MW as on date for captive use.

### Analytical Approach

Acuite has taken the standalone view of the business and financial risk profile of SAM to arrive at the rating.

### Key Rating Drivers

#### Strengths

- **Extensive experience of promoters**

SAM is managed by Mr. Sankaralingam Annamalai, Mr. Sankaralingam Maheswaran, Mr. Balakrishnan Prabakaran along with other Directors. All the Directors are vintage people with experience of over two decades in the textile industry. This helped to build a 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, SAM over a period has setup about 11.25 mega-watt of windmill power which supports about 50-55 per cent of its power requirement. Acuite believes that SAM's longstanding presence and experienced management is expected to support in sustaining the operations and business risk profile over the medium term.

#### Weaknesses

- **Below average financial risk profile**

SAM's financial risk profile is below average marked by high gearing (debt-to-equity), high total outside liabilities to tangible networth (TOL/TNW) and weak debt protection metrics. The gearing is high at 2.39 times as on March 31, 2020 (Provisional) as against 2.03 times as on March 31, 2019. TOL/TNW is high at 3.98 times in as on March 31, 2020 (Provisional) as against, 3.38 times as on March 31, 2019. Its net worth is modest at Rs.21.04 crore as on March 31, 2020 (Provisional) as against (including quasi equity of Rs.14.00 crores), as against Rs.25.33 crore as on March 31, 2019; due to the company has reported consistent net

losses during the last 3 years ended with FY2020 (provisional). There is an infusion of unsecured loans by promoters of about 25 Cr in as on March 31, 2020 (Provisional) which was improved from Rs.14.00 Cr from the previous year. SAM generated minuscule cash accruals of Rs.0.53 Cr to Rs.2.31 Cr during the last three years ended through FY2020 (provisional), while its maturing debt obligations are Rs.3.50-5.50 Cr during the same period. The cash accruals of the SAM's are estimated to remain around Rs.0.10-1.60 crore during 2021-23, while its repayment obligations are estimated to be around Rs.5-7.50 crore over the same period. This lead to weak debt protection metrics of interest coverage and net cash accruals to total debt of 1.07 and 0.01 times in FY2020 (Provisional) vis-à-vis 0.79 and 0.01 times in FY2019. Acuité believes that with minuscule accruals to high repayment obligations, regular capex and timely support in the form of unsecured loans / quasi equity, the financial risk profile is expected to similar levels over the medium term.

#### • **Shrinking revenue base led to losses**

SAM continued deterioration in business performance over the last four years; Its operating income is declined from Rs.108.46 Cr in FY2017 to 79.24 Cr in FY2020 (provisional) and it is reporting significant losses in the past three years. The company's operations are expected to be impacted significantly in FY2021 on the back of subdued domestic and prolonged impact of Covid19 pandemic.

#### • **High working capital intensity nature of operations**

SAM has high working capital intensive nature of its operations as evident from its Gross Current Assets (GCA) of in the range of 203-262 days over the last 3 years ending March, 2020. The high GCA is owing to high inventory levels in the range of 137-184 days and moderate debtor days of 38-74 days over the last 3 years ending March, 2020. High working capital intensity lead to high utilisation of its working capital limits at about 92 percent over the past six months ended August 2020. 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. Acuité believes that SAM's operations will remain the same over the medium term.

#### **Liquidity Position: Poor**

SAM's liquidity position is poor as reflected minuscule net cash accruals to its maturing debt obligations and high utilisation of working capital limits. SAM generated minuscule cash accruals of Rs.0.53 Cr to Rs.2.31 Cr during the last three years ended through FY2020 (provisional), while its maturing debt obligations are Rs.3.50-5.50 Cr during the same period. The cash accruals of the SAM's are estimated to remain around Rs.0.10-1.60 crore during 2021-23, while its repayment obligations are estimated to be around Rs.5-7.50 crore over the same period. However, liquidity is constrained by its working capital limits which are highly utilised at about 92 per cent for the last six months through August 2020. The current ratio stood weak, stood at below 1.00 times during last 3 years ended with March 31, 2020 (provisional). However, the liquidity is supported by way of infusion of unsecured loans by promoters of about 25 Cr in as on March 31, 2020 (Provisional) which was improved from Rs.14.00 Cr from the previous year. The company has availed moratorium on its interest and principle obligations to maintain liquidity amidst the Covid-19 outbreak. Acuité believes Scale up in operations and improvement in the working capital cycle, especially debtors, is crucial to improve liquidity situation over the medium term.

#### **Rating Sensitivities**

- Significant improvement in scale of operations, while improving its profitability margins
- Any further large debt-funded capital expenditure, impacting the financial risk profile adversely.
- Further stretch in the working capital cycle

#### **Material covenants**

None

#### **Outlook: Stable**

Acuité believes that SAM will maintain a 'Stable' outlook in the medium term backed by its promoter's extensive experience and established relations with customers. The outlook may be revised to 'Positive' in case of a significant improvement in its revenues while Improvement in scale of operations and profitability backed by cost rationalization measures, strengthens the net cash accruals and capital structure. Conversely, the outlook may be revised to 'Negative' if there is a further steep decline in the revenues or further deterioration in the working capital cycle, or leading to further weakening of its current ratio, or any significant debt-funded capital expenditure leading to the deterioration of its financial risk profile and liquidity.

### About the Rated Entity - Key Financials

	Unit	FY20 (Provisional)	FY19 (Actual)
Operating Income	Rs. Cr.	79.24	89.78
PAT	Rs. Cr.	(4.29)	(4.62)
PAT Margin	(%)	(5.41)	(5.15)
Total Debt/Tangible Net Worth	Times	2.39	2.03
PBDIT/Interest	Times	1.07	0.79

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

None

### Any other information

None

### Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-59.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>

### Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

### Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
23-March-2019	Cash Credit	Long Term	20.90	ACUITE BB / Stable (Downgraded from ACUITE BB+/Stable)
	Term loans	Long Term	4.28	ACUITE BB / Stable (Downgraded from ACUITE BB+/Stable)
	Cash Credit	Long Term	9.10	ACUITE BB / Stable (Downgraded from ACUITE BB+/Stable)
	Term loans	Long Term	5.55	ACUITE BB / Stable (Downgraded from ACUITE BB+/Stable)
	Term loans	Long Term	4.17	ACUITE BB / Stable (Downgraded from ACUITE BB+/Stable)
	Letter of credit	Short Term	18.60	ACUITE A4+ (Reaffirmation)
	Letter of credit	Short Term	6.40	ACUITE A4+ (Reaffirmation)
	Bills Discounting	Short Term	5.00	ACUITE A4+ (Withdrawn)
	Proposed Fund Based Facility	Long Term	1.24	ACUITE BB / Stable (Withdrawn)
	Bank Guarantee	Short Term	1.50	ACUITE A4+ (Withdrawn)

02-Jan-2019	Cash Credit	Long Term	20.90	ACUITE A4+ (Indicative)
	Cash Credit	Long Term	9.10	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	ACUITE BB+ / Stable (Assigned)
	Cash Credit	Long Term	9.10	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	ACUITE BB- / Stable (Downgraded from ACUITE BB/Stable)
Term loans	25-02-2019	Not Applicable	28-02-2024	3.67	ACUITE BB- / Stable (Downgraded from ACUITE BB/Stable)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	9.10	ACUITE BB- / Stable (Downgraded from ACUITE BB/Stable)

					BB/Stable)
Term loans	23-11-2018	Not Applicable	31-12-2022	5.05	ACUITE BB- / Stable (Downgraded from ACUITE BB/Stable)
Term loans	12-03-2018	Not Applicable	31-08-2024	3.30	ACUITE BB- / Stable (Downgraded from ACUITE BB/Stable)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	1.98	ACUITE BB- / Stable (Downgraded from ACUITE BB/Stable)
Letter of credit	Not Applicable	Not Applicable	Not Applicable	18.60	ACUITE A4+ (Reaffirmed)
Letter of credit	Not Applicable	Not Applicable	Not Applicable	6.40	ACUITE A4+ (Reaffirmed)

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## About Acuité Ratings & Research:

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