

## Press Release

**Sree Ayyanar Spinning and Weaving Mills Private Limited**

**February 03, 2022**



### Rating Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
<b>Bank Loan Ratings</b>	54.00	ACUITE BB-   Stable   Reaffirmed	-
<b>Bank Loan Ratings</b>	15.00	-	ACUITE A4+   Reaffirmed
<b>Total Outstanding Quantum (Rs. Cr)</b>	69.00	-	-
<b>Total Withdrawn Quantum (Rs. Cr)</b>	0.00	-	-

\* Refer Annexure for details

### Rating Rationale

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

The reaffirmation in the rating reflects the improvement in the revenues in FY2021, improvement in the operating margins and expected improvement in the revenues & margins going forward. The rating, however, continues to remain constrained at the same level on account of net losses faced by the company in FY2021, working capital intensive operations, below average financial risk profile and poor liquidity position marked by low net cash accruals to its maturing debt obligations.

### About the Company

Sree Ayyanar Spinning and Weaving Mills Private Limited (SAM) is one of the oldest companies in the Pioneer Group. SAM was incorporated in 1962 and is 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. 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. Export accounts for 30% of the total sales. The directors of the company are Mr. Sankaralingam Maheswaran, Mr. Sankaralingam Annamalai, Mr. Ashok Aruna, Mr. Pradeep Sankar Maheswaran, Mr. Krishnamoorthy Sathiavan and Mr. Balakrishnan Prabaharan.

### Analytical Approach

Acuité has taken a 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 Maheswaran, Mr. Sankaralingam Annamalai, Mr. Ashok Aruna, Mr. Pradeep Sankar Maheswaran, Mr. Krishnamoorthy Sathiavan and Mr. Balakrishnan Prabaharan. 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. This has translated to improvement in the revenues in FY2021 to Rs.83.67 crore from Rs.79.44 crore in FY2020. The Company has already achieved turnover of Rs.79.83 crore for 9MFY2022 and is expecting to achieve around Rs.107-112 crore in FY2022. The company has orders in hand worth Rs.17-18 crore as on December 31, 2021, part of which is already executed up to date. The orders are expected to be fully executed by February 15, 2022. Industry is likely to see revenue growth in FY2022 with improvement in realization reinforced by positive government initiatives for yarn manufacturers. This gives adequate revenue visibility over the medium term. Further, to better integrate its operations and improve efficiencies, SAM over a period has setup about 11.25 megawatt of windmill power which supports about 50-55 per cent of its power requirement.

Acuité 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.

#### >Improvement in the operating margins

The operating margin of the company stood at 9.91 percent in FY2021 as against (2.51) percent in FY2020. In FY2021, due to Covid-19, China who was number one exporter of textiles was blacklisted by America and the export market. So, this became a boon for India and all textile companies started doing very well. Despite the lockdown faced by company, the EBITDA margins improved in FY2021.

Acuité believes that the operating margins are also expected to improve over the medium term.

### Weaknesses

#### >Below average financial risk profile

Financial risk profile of SAM is below average marked by deteriorating gearing (debt to equity ratio) & total outside liabilities to total net worth (TOL/TNW), low net worth and moderate debt protection metrics. The gearing stood at 5.88 times as on March 31, 2021 against 3.80 times as on March 31, 2020. TOL/TNW stood at 6.86 times as on March 31, 2021 against 5.90 times as on March 31, 2020. Tangible net worth of the company stood low at Rs.10.61 crore as on March 31, 2021 (quasi equity of Rs.14.00 crore) against Rs.14.37 crore as on March 31, 2020 (quasi equity of Rs.14.00 crore). The decrease in net worth is majorly due to losses. Of the total debt of Rs.62.41 crore as on March 31, 2021, long-term debt stood at Rs.22.10 crore, short-term debt stood at Rs.27.12 crore, unsecured loans stood at Rs.5.20 crore and CPLTD stood at Rs.8.00 crore. Debt protection metrics of interest coverage ratio and net cash accruals to total debt stood moderate at 1.03 times and 0.01 times respectively in FY2021; while DSCR stood at 0.73 times in FY2021.

Acuité believes that the financial risk profile is expected to improve over the medium term.

#### >Working capital intensive operations

SAM's working capital operations have improved but are still intensive marked by Gross Current Asset days (GCA) of 174 days in FY2021 against 230 days in FY2020. The inventory days stood at 112 days in FY2021 against 136 days in FY2020. The company's inventory holding policy depends on next season's expectations / visibility for the next 6 months / order book position. The debtors' days stood at 43 days in FY2021 against 56 days in FY2020. The credit period given to customers is around 30-45 days. The creditors' days stood at 49 days in FY2021 against 164 days in FY2020. The company enjoys a credit period of 30-45 days from their

suppliers. However, fund based limits remains utilized at 86.58 percent for last 6 months ended December, 2021. The average utilization of non-fund based limits is 40 percent.

Acuité believes that SAM's working capital intensive operations are expected to improve over the medium term.

### **Rating Sensitivities**

- Growth in revenue with sustainability of the profitability margins.
- Any deterioration of its financial risk profile and liquidity position.
- Any elongation of the working capital cycle leading to deterioration in debt protection metrics.

### **Material covenants**

None

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

SAM's liquidity position is poor as reflected by minuscule net cash accruals to its maturing debt obligations and high utilization of fund based working capital limits. SAM generated minuscule cash accruals in the range of Rs.0.11 crore to Rs.0.83 crore during the last three years from FY2019 to FY2021, while its maturing debt obligations stood in the range of Rs.3.76 crore to 8.00 crore during the same period. The cash accruals of the SAM's are estimated to remain around Rs.10.72 crore to 12.10 crore during 2022-24, while its repayment obligations are estimated to be around Rs.6.34 crore to 6.41 crore over the same period. However, liquidity is constrained by its fund based working capital limits which are highly utilized at about 86.58 percent for the last six months ended December, 2021. The average utilization of non-fund based limits is 40 percent. The current ratio stood weak, stood at below 1.00 times during last 3 years ended with March 31, 2021. Unencumbered cash and bank balances stood at Rs.0.18 crore as on March 31, 2021 and liquid investments stood at Rs.1.34 crore as on March 31, 2021. However, the liquidity is supported by way of infusion of unsecured loans by promoters of about 14.00 crore as on March 31, 2021.

Acuité believes that liquidity profile is expected to improve over the medium term.

#### **Outlook: Stable**

Acuité believes that SAM will maintain a 'Stable' outlook over the medium term owing to its experienced management. The outlook may be revised to 'Positive' if the company demonstrates substantial and sustained growth in its revenues from the current levels while maintaining its margins. Conversely, the outlook may be revised to 'Negative' in case the company registers lower than expected growth in revenues and profitability or deterioration in its working capital management or larger-than-expected debt-funded capex leading to deterioration in its financial risk profile and liquidity.

### **Key Financials**

Particulars	Unit	FY 21 (Actual)	FY 20 (Actual)
Operating Income	Rs. Cr.	83.67	79.44
PAT	Rs. Cr.	(3.76)	(10.96)
PAT Margin	(%)	(4.49)	(13.79)
Total Debt/Tangible Net Worth	Times	5.88	3.80
PBDIT/Interest	Times	1.03	(0.17)

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

Not Applicable

#### **Any other information**

None

#### **Applicable Criteria**

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Entities In Manufacturing Sector -<https://www.acuite.in/view-rating-criteria-59.htm>
- Application Of 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

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
05 Nov 2020	Term Loan	Long Term	5.05	ACUITE BB-   Stable (Downgraded from ACUITE BB )
	Cash Credit	Long Term	9.10	ACUITE BB-   Stable (Downgraded from ACUITE BB )
	Letter of Credit	Short Term	6.40	ACUITE A4+ (Reaffirmed)
	Term Loan	Long Term	3.67	ACUITE BB-   Stable (Downgraded from ACUITE BB )
	Cash Credit	Long Term	20.90	ACUITE BB-   Stable (Downgraded from ACUITE BB )
	Letter of Credit	Short Term	18.60	ACUITE A4+ (Reaffirmed)
	Proposed Bank Facility	Long Term	1.98	ACUITE BB-   Stable (Downgraded from ACUITE BB )
	Term Loan	Long Term	3.30	ACUITE BB-   Stable (Downgraded from ACUITE BB )
23 Mar 2019	Proposed Long Term Loan	Long Term	1.24	ACUITE BB (Withdrawn)
	Letter of Credit	Short Term	6.40	ACUITE A4+ (Reaffirmed)
	Bills Discounting	Short Term	5.00	ACUITE A4+ (Withdrawn)
	Term Loan	Long Term	4.17	ACUITE BB   Stable (Downgraded from ACUITE BB+)
	Letter of Credit	Short Term	18.60	ACUITE A4+ (Reaffirmed)
	Term Loan	Long Term	5.55	ACUITE BB   Stable (Downgraded from ACUITE BB+)
	Cash Credit	Long Term	9.10	ACUITE BB   Stable (Downgraded from ACUITE BB+)
	Bank Guarantee	Short Term	1.50	ACUITE A4+ (Withdrawn)
	Cash Credit	Long Term	20.90	ACUITE BB   Stable (Downgraded from ACUITE BB+)
	Term Loan	Long Term	4.28	ACUITE BB   Stable (Downgraded from ACUITE BB+)
02 Jan 2019	Letter of Credit	Short Term	14.60	ACUITE A4+ (Issuer not co-operating*)
	Term Loan	Long Term	7.11	ACUITE BB+ (Issuer not co-operating*)
	Letter of Credit	Short Term	6.40	ACUITE A4+ (Issuer not co-operating*)
	Cash Credit	Long Term	9.10	ACUITE BB+ (Issuer not co-operating*)
	Term Loan	Long Term	2.10	ACUITE BB+ (Issuer not co-operating*)
	Bank Guarantee	Short Term	1.50	ACUITE A4+ (Issuer not co-operating*)
	Cash Credit	Long Term	20.90	ACUITE BB+ (Issuer not co-operating*)
	Bills Discounting	Short Term	5.00	ACUITE A4+ (Issuer not co-operating*)
		Long		

	Term Loan	Term	1.05	ACUITE BB+ (Issuer not co-operating*)
	Proposed Long Term Loan	Long Term	1.24	ACUITE BB+ (Issuer not co-operating*)
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

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Indian Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	20.90	ACUITE BB-   Stable   Reaffirmed
Indian Overseas Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	9.10	ACUITE BB-   Stable   Reaffirmed
Indian Bank	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	12.00	ACUITE A4+   Reaffirmed
Indian Overseas Bank	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	3.00	ACUITE A4+   Reaffirmed
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	1.29	ACUITE BB-   Stable   Reaffirmed
Indian Overseas Bank	Not Applicable	Term Loan	28-10-2018	11.80	31-10-2024	2.81	ACUITE BB-   Stable   Reaffirmed
City Union Bank Ltd	Not Applicable	Term Loan	31-03-2018	10.05	30-04-2024	0.66	ACUITE BB-   Stable   Reaffirmed
Indian Bank	Not Applicable	Term Loan	01-04-2015	9.50	01-04-2022	0.36	ACUITE BB-   Stable   Reaffirmed
Indian Bank	Not Applicable	Term Loan	01-04-2015	9.50	01-04-2022	0.13	ACUITE BB-   Stable   Reaffirmed
Indian Bank	Not Applicable	Term Loan	27-11-2018	9.50	31-03-2022	3.00	ACUITE BB-   Stable   Reaffirmed
Indian Bank	Not Applicable	Term Loan	29-05-2020	11.20	29-05-2025	9.00	ACUITE BB-   Stable   Reaffirmed
Indian Bank	Not Applicable	Term Loan	29-05-2020	11.20	29-04-2023	4.65	ACUITE BB-   Stable   Reaffirmed
City Union Bank Ltd	Not Applicable	Term Loan	31-03-2018	10.05	31-10-2024	2.10	ACUITE BB-   Stable   Reaffirmed

Note:

1. Indian Bank CC includes sublimit of PC to the extent of Rs.7.00 crore, PCFC of Rs.7.00 crore.

2. Indian Bank LC includes sublimit of one time BG to the extent of Rs.6.10 crore

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