

Press Release

Sree Ayyanar Spinning and Weaving Mills Private Limited

April 27, 2023



Rating Assigned and Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	8.00	ACUITE BB- Stable Assigned	-
Bank Loan Ratings	57.00	ACUITE BB- Stable Reaffirmed	-
Bank Loan Ratings	7.00	-	ACUITE A4+ Assigned
Bank Loan Ratings	12.00	-	ACUITE A4+ Reaffirmed
Total Outstanding Quantum (Rs. Cr)	84.00	-	-

Rating Rationale

Acuite 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 crore bank facilities of Sree Ayyanar Spinning and Weaving Mills Private Limited (SAM). The outlook is '**Stable**'.

Acuite has assigned 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.15.00 crore bank facilities of Sree Ayyanar Spinning and Weaving Mills Private Limited (SAM). The outlook is '**Stable**'.

Rationale for rating

The rating reflects SAM's business risk profile marked by its experienced promoters, long standing client relationship and improvement in the scale of operations and margins in FY2022. The rating also factors the ability of SAM to sustain the operating margin in FY2023 inspite of decrease in turnover. The rating, however, continues to remain constrained by the below average financial risk profile, low debt protection metrics, moderately intensive working capital operations and poor liquidity position.

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, Mrs Aruna Ashok, 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 in the industry.

SAM is managed by Mr. Sankaralingam Maheswaran, Mr. Sankaralingam Annamalai, Mrs Aruna Ashok, Mr. Pradeep Sankar Maheswaran, Mr. Krishnamoorthy Sathiavan and Mr. Balakrishnan Prabaharan. All the directors have 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. The revenues improved in FY2022 to Rs.113.18 crore from Rs.83.67 crore in FY2021. The company has achieved a turnover of Rs.86.01 crore for FY2023 (provisional) and decrease in the turnover is due to high fluctuations in raw cotton prices. 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 14.29 percent in FY2022 as against 9.91 percent in FY2021. In FY2023, inspite of decline in revenues, SAM has been able to maintain the operating margin at 14.40 percent. The improvement is driven by savings on power and fuel costs. SAM has captive windmill power generation capacity of ~11.25 megawatt, which supports about 50-55 percent of its power requirement.

Weaknesses

Below average financial risk profile

Financial risk profile of SAM is below average marked by high gearing (debt to equity ratio), low net worth and moderate debt protection metrics. The gearing stood at 3.75 times as on March 31, 2022 as against 5.88 times as on March 31, 2021. TOL/TNW stood at 4.08 times as on March 31, 2022 against 6.86 times as on March 31, 2021. Tangible net worth of the company stood low at Rs.16.82 crore as on March 31, 2022 (quasi equity of Rs.18.52 crore) against Rs.10.61 crore as on March 31, 2021 (quasi equity of Rs.14.00 crore). The low net worth is majorly due to PAT losses. (reserves is at (7.45) Cr as on March 31, 2022). Of the total debt of Rs.63.00 crore as on March 31, 2022, long-term debt stood at Rs.20.48 crore, short-term debt stood at Rs.32.04 crore, and CPLTD stood at Rs.10.49 crore. Debt protection metrics of interest coverage ratio and net cash accruals to total debt stood low at 0.94 times and 0.10 times respectively in FY2022; while DSCR stood at 0.90 times in FY2022. Acuité believes SAM's ability to improve its financial risk profile over the medium term will remain a key rating monitorable.

Working capital intensive operations

SAM's working capital operations have improving but are still intensive marked by Gross Current Asset (GCA) days of 143 days in FY2022 against 174 days in FY2021. The inventory days stood at 97 days in FY2022 against 112 days in FY2021. 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 36 days in FY2022 against 43 days in FY2021. The credit period given to customers is around 30-45 days. The creditors days stood at 6 days in FY2022 against 49 days in FY2021. the fund based limits remains highly utilized at 91.40 percent for last 6 months ended March, 2023. Acuité believes that the Working capital is expected to remain intensive over the medium term.

Susceptibility to fluctuation in raw material prices

SAM's profitable margins are susceptible to fluctuations in the prices of major raw material i.e. Raw cotton. Cotton being a seasonal crop, the production of the same is highly dependent upon the monsoon. Thus, inadequate rainfall affects the availability of cotton in adverse weather conditions. Furthermore, any abrupt change in cotton prices due to supply-demand scenario and government regulations of changes in Minimum Support Price (MSP) can lead to distortion of prices and affect the profitability of players across the cotton value chain. Acuité believes that SAM's business profile and financial profile can be adversely impacted on account of presence of inherent risk of susceptibility of volatility in raw cotton prices, since the industry is highly commoditized.

Rating Sensitivities

- Higher-than-expected improvement in the scale of operations and profitability as envisaged.
- Any deterioration in working capital cycle and liquidity profile of the company.
- Any weakening of financial risk profile of the company.

Material covenants

None

Liquidity Position: Poor

SAM's liquidity position is poor as reflected by insufficient net cash accruals to its maturing debt obligations and intense utilization of fund based working capital limits. SAM generated cash accruals of Rs.6.48 crore and Rs.0.83 in FY2022 and FY2021 respectively while its maturing debt obligations stood at Rs.10.49 crore and Rs. 8.00 crore during the same period. The cash accruals of the SAM's are estimated to remain around Rs.5.31 crore to Rs.7.42 crore during 2023-25, while its repayment obligations are estimated to be around Rs.6.96 crore to Rs.6.45 crore over the same period. The funding gap of the company is met through infusion of funds by group companies. The Group companies investment stands at Rs.18.53 crore and Rs.28.88 crore in FY2022 and FY2023 respectively. However, liquidity is constrained by its fund based working capital limits which are highly utilized at about 91.40 percent for the last twelve months ended March, 2023. The current ratio stood weak, stood less than 1.00 times during last 3 years ended with March 31, 2022. Unencumbered cash and bank balances stood at Rs.0.06 crore as on March 31, 2022 and liquid investments stood at Rs.0.33 crore as on March 31, 2022.

Outlook: Stable

Acuité believes that SAM will maintain a 'Stable' outlook over the medium term owing to its experienced management and improving profitability. 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.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	113.18	83.67
PAT	Rs. Cr.	1.68	(3.76)
PAT Margin	(%)	1.49	(4.49)
Total Debt/Tangible Net Worth	Times	3.75	5.88
PBDIT/Interest	Times	2.29	1.03

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

Crisil vide its press release dated 24-02-2023 had rated the company to CRISIL B+/CRISIL A4/Stable : Issuer Not Cooperating

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>
- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

In order to inform the investors about complexity of instruments, Acuite has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
03 Feb 2022	Term Loan	Long Term	0.13	ACUITE BB- Stable (Reaffirmed)
	Term Loan	Long Term	0.66	ACUITE BB- Stable (Reaffirmed)
	Term Loan	Long Term	4.65	ACUITE BB- Stable (Reaffirmed)
	Proposed Bank Facility	Long Term	1.29	ACUITE BB- Stable (Reaffirmed)
	Term Loan	Long Term	2.81	ACUITE BB- Stable (Reaffirmed)
	Term Loan	Long Term	0.36	ACUITE BB- Stable (Reaffirmed)
	Cash Credit	Long Term	20.90	ACUITE BB- Stable (Reaffirmed)
	Cash Credit	Long Term	9.10	ACUITE BB- Stable (Reaffirmed)
	Term Loan	Long Term	2.10	ACUITE BB- Stable (Reaffirmed)
	Term Loan	Long Term	9.00	ACUITE BB- Stable (Reaffirmed)
	Term Loan	Long Term	3.00	ACUITE BB- Stable (Reaffirmed)
	Letter of Credit	Short Term	12.00	ACUITE A4+ (Reaffirmed)
	Letter of Credit	Short Term	3.00	ACUITE A4+ (Reaffirmed)
	Term Loan	Long Term	5.05	ACUITE BB- Stable (Downgraded from ACUITE BB Stable)
	Cash Credit	Long Term	9.10	ACUITE BB- Stable (Downgraded from ACUITE BB Stable)

05 Nov 2020	Letter of Credit	Short Term	6.40	ACUITE A4+ (Reaffirmed)
	Term Loan	Long Term	3.67	ACUITE BB- Stable (Downgraded from ACUITE BB Stable)
	Cash Credit	Long Term	20.90	ACUITE BB- Stable (Downgraded from ACUITE BB Stable)
	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 Stable)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Indian Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	20.90	ACUITE BB- Stable Reaffirmed
Indian Overseas Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	9.10	ACUITE BB- Stable Reaffirmed
Indian Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	4.20	ACUITE BB- Stable Assigned
Indian Overseas Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	1.80	ACUITE BB- Stable Assigned
Indian Bank	Not Applicable	FBN/FBP/FBD/PSFC/FBE	Not Applicable	Not Applicable	Not Applicable	Simple	7.00	ACUITE A4+ Assigned
Indian Bank	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	Simple	12.00	ACUITE A4+ Reaffirmed
Not Applicable	Not Applicable	Proposed Term Loan	Not Applicable	Not Applicable	Not Applicable	Simple	0.95	ACUITE BB- Stable Assigned
City Union Bank Ltd	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	2.10	ACUITE BB- Stable Reaffirmed
City Union Bank Ltd	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	1.50	ACUITE BB- Stable Reaffirmed
Indian Overseas Bank	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	6.68	ACUITE BB- Stable Reaffirmed
Indian Bank	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	13.25	ACUITE BB- Stable Reaffirmed
Indian Overseas Bank	Not Applicable	Term Loan	28 Oct 2018	11.80	31 Oct 2024	Simple	2.81	ACUITE BB- Stable Reaffirmed
City Union Bank Ltd	Not Applicable	Term Loan	31 Mar 2018	10.05	30 Apr 2024	Simple	0.66	ACUITE BB- Stable Reaffirmed
City Union	Not	Term Loan	Not	Not	Not	Simple	1.05	ACUITE BB-

Bank Ltd	Applicable		available	available	available			Stable Assigned
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About Acuité Ratings & Research

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