



Press Release
Sree Ayyanar Spinning and Weaving Mills Private Limited
July 25, 2024
Rating Downgraded

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	65.00	ACUITE B+ Stable Downgraded	-
Bank Loan Ratings	19.00	-	ACUITE A4 Downgraded
Total Outstanding Quantum (Rs. Cr)	84.00	-	-

Rating Rationale

Acuité has downgraded the long-term rating to '**ACUITE B+**' (read as **ACUITE B plus**) from '**ACUITE BB-**' (read as **ACUITE double B minus**) and the short-term rating to **ACUITE A4**' (read as **ACUITE A four**) from '**ACUITE A4+**' (read as **ACUITE A four plus**) on the Rs.84.00 crore bank facilities of Sree Ayyanar Spinning and Weaving Mills Private Limited (SAM). The outlook is '**Stable**'.

Rationale for downgrade

The rating is downgraded on account of the deterioration in the operating performance of SAM, marked by a decline in revenues and operating losses in FY2024(prov). The company reported an operating loss of Rs.0.22 Cr. and a net loss of Rs.13.92 Cr. in FY2024(prov). The ratings also remain constrained by the company's negative capital structure and modest coverage indicators, owing to the continued losses. The rating continues to draw comfort from experienced management and liquidity support by group companies.

Going forward, the ability of the company to improve its profitability margins and financial risk profile over the medium term is key monitorable.

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 Sathivan and Mr. Balakrishnan Prabakaran.

Unsupported Rating

Not Applicable

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 Prabakaran. All the directors have over two decades of experience 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 stood at Rs.89.08 Cr. in FY2024(prov) as against Rs.85.40 Cr. in FY2023.

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

Operating losses in FY2024(prov)

The company has reported an operating loss in FY2024(prov) due to an increase in yarn prices in domestic market as against to the export market, resulting in lower demand for the domestic yarns. However, the yarn prices have stabilized and company has reported an operating margin of ~14.00 percent in Q1FY2025. Acuite believes that the same is expected to continue going forward, aided by stable raw material costs. Further, the coverage metrics remained weak in FY2024(prov) because of the operating losses, in the absence of any significant capex plans, they are expected to improve going forward as accruals improve.

Below average financial risk profile

The financial risk profile of SAM is below average marked by negative net worth and below unity debt protection metrics. The net worth of the company stood negative at Rs.23.51 Cr. as on March 31 2024 (prov) owing to consecutive losses for the last two years ending FY2024(prov). Of the total debt of Rs.95.36 crore as on March 31, 2024(prov) long-term debt stood at Rs.28.55 crore, short-term debt stood at Rs.23.85 crore, USL from directors/ promoters is Rs.33.77 Cr. and CPLTD stood at Rs.9.19 crore. Long term debt includes unsecured short-term loan from NBFC of Rs.12.05 Cr. as on March 31, 2024 (prov). The debt protection metrics of the company are below unity, with the interest coverage ratio at 0.07 times, DSCR at 0.04 times as on March 31 2024 (prov).

ACUITE believes that the financial risk profile of the company continues to be below average over the medium term. The ability of the company to improve its profitability margins and financial risk profile over the medium term is key monitorable.

Working capital intensive operations

SAM's working capital operations have improved in FY2024(prov) yet marked as intensive due to the high Gross Current Asset (GCA) days of 201 days in FY2024(prov) as against 231 days in FY2023. The inventory days stood at 118 days in FY2024(prov) as against 160 days in FY2023. 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 52 days in FY2024(prov) as against 48 days in FY2023. The credit period given to customers is around 30-45 days. The creditors' days stretched and stood at 75 days in FY2024(prov) as against 71 days in FY2023. Further, the fund-based limits remain moderately high with utilisation of 86.38 percent for the last 12 months ended May, 2024.

ACUITE believes that the working capital operations of the company will remain intensive in nature 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 further deterioration in working capital cycle and liquidity profile of the company.
- Any further weakening of financial risk profile of the company.

Liquidity Position: Poor

SAM's liquidity position is poor as reflected by insufficient net cash accruals to its maturing debt obligations and moderately high utilization of fund based working capital limits. The funding gap for the company is met through the infusion of funds by group companies. The group company investment stands at Rs.33.77 Cr. as on March 31, 2024 (prov).

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 significant improvement in scale of operations and profitability margins with improving its financial risk profile. Conversely, the outlook may be revised to 'Negative' in case the company registers lower than expected growth in revenues and profitability or further 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 24 (Provisional)	FY 23 (Actual)
Operating Income	Rs. Cr.	89.08	85.40
PAT	Rs. Cr.	(13.92)	(7.89)
PAT Margin	(%)	(15.62)	(9.24)
Total Debt/Tangible Net Worth	Times	(4.06)	(10.04)
PBDIT/Interest	Times	0.07	0.32

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>
- 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
27 Apr 2023	Letter of Credit	Short Term	12.00	ACUITE A4+ (Reaffirmed)
	FBN/FBP/FBD/PSFC/FBE	Short Term	7.00	ACUITE A4+ (Assigned)
	Cash Credit	Long Term	20.90	ACUITE BB- Stable (Reaffirmed)
	Cash Credit	Long Term	9.10	ACUITE BB- Stable (Reaffirmed)
	Term Loan	Long Term	2.81	ACUITE BB- Stable (Reaffirmed)
	Term Loan	Long Term	0.66	ACUITE BB- Stable (Reaffirmed)
	Cash Credit	Long Term	4.20	ACUITE BB- Stable (Assigned)
	Term Loan	Long Term	13.25	ACUITE BB- Stable (Reaffirmed)
	Cash Credit	Long Term	1.80	ACUITE BB- Stable (Assigned)
	Term Loan	Long Term	6.68	ACUITE BB- Stable (Reaffirmed)
	Term Loan	Long Term	1.05	ACUITE BB- Stable (Assigned)
	Term Loan	Long Term	2.10	ACUITE BB- Stable (Reaffirmed)
	Term Loan	Long Term	1.50	ACUITE BB- Stable (Reaffirmed)
	Proposed Term Loan	Long Term	0.95	ACUITE BB- Stable (Assigned)
03 Feb 2022	Cash Credit	Long Term	20.90	ACUITE BB- Stable (Reaffirmed)
	Term Loan	Long Term	0.36	ACUITE BB- Stable (Reaffirmed)
	Cash Credit	Long Term	9.10	ACUITE BB- Stable (Reaffirmed)
	Term Loan	Long Term	2.81	ACUITE BB- Stable (Reaffirmed)
	Term Loan	Long Term	0.66	ACUITE BB- Stable (Reaffirmed)
	Term Loan	Long Term	0.13	ACUITE BB- Stable (Reaffirmed)
	Term Loan	Long Term	3.00	ACUITE BB- Stable (Reaffirmed)
	Term Loan	Long Term	9.00	ACUITE BB- Stable (Reaffirmed)
	Term Loan	Long Term	4.65	ACUITE BB- Stable (Reaffirmed)
	Term Loan	Long Term	2.10	ACUITE BB- Stable (Reaffirmed)
	Proposed Long Term Bank Facility	Long Term	1.29	ACUITE BB- Stable (Reaffirmed)
	Letter of Credit	Short Term	12.00	ACUITE A4+ (Reaffirmed)
		Short		

	Letter of Credit	Term	3.00	ACUITE A4+ (Reaffirmed)
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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 avl. / Not appl.	Cash Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	25.10	ACUITE B+ Stable Downgraded (from ACUITE BB-)
Indian Overseas Bank	Not avl. / Not appl.	Cash Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	10.90	ACUITE B+ Stable Downgraded (from ACUITE BB-)
Indian Overseas Bank	Not avl. / Not appl.	Covid Emergency Line.	Not avl. / Not appl.	Not avl. / Not appl.	30 Sep 2024	Simple	1.32	ACUITE B+ Stable Downgraded (from ACUITE BB-)
Indian Bank	Not avl. / Not appl.	FBN/FBP/FBD/PSFC/FBE	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	7.00	ACUITE A4 Downgraded (from ACUITE A4+)
Indian Bank	Not avl. / Not appl.	Letter of Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	12.00	ACUITE A4 Downgraded (from ACUITE A4+)
Not Applicable	Not avl. / Not appl.	Proposed Term Loan	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	5.19	ACUITE B+ Stable Downgraded (from ACUITE BB-)
City Union Bank Ltd	Not avl. / Not appl.	Term Loan	Not avl. / Not appl.	Not avl. / Not appl.	28 Sep 2029	Simple	2.32	ACUITE B+ Stable Downgraded (from ACUITE BB-)
Indian Bank	Not avl. / Not appl.	Term Loan	Not avl. / Not appl.	Not avl. / Not appl.	31 Oct 2024	Simple	1.09	ACUITE B+ Stable Downgraded (from ACUITE BB-)
Indian Bank	Not avl. / Not appl.	Term Loan	Not avl. / Not appl.	Not avl. / Not appl.	30 Jun 2025	Simple	4.50	ACUITE B+ Stable Downgraded (from ACUITE BB-)
Indian Bank	Not avl. / Not appl.	Term Loan	Not avl. / Not appl.	Not avl. / Not appl.	30 Jun 2026	Simple	0.80	ACUITE B+ Stable Downgraded (from ACUITE BB-)
Indian Bank	Not avl. / Not	Term Loan	Not avl. / Not appl.	Not avl. / Not appl.	31 Oct 2028	Simple	5.00	ACUITE B+ Stable Downgraded (from

	appl.							ACUITE BB-)
Indian Bank	Not avl. / Not appl.	Term Loan	Not avl. / Not appl.	Not avl. / Not appl.	30 Apr 2027	Simple	2.78	ACUITE B+ Stable Downgraded (from ACUITE BB-)
Indian Overseas Bank	Not avl. / Not appl.	Term Loan	Not avl. / Not appl.	Not avl. / Not appl.	30 Nov 2029	Simple	5.67	ACUITE B+ Stable Downgraded (from ACUITE BB-)
Indian Overseas Bank	Not avl. / Not appl.	Term Loan	28 Oct 2018	Not avl. / Not appl.	31 Oct 2024	Simple	0.33	ACUITE B+ Stable Downgraded (from ACUITE BB-)

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About Acuité Ratings & Research

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