

Press Release

SJLT SPINNING MILLS PRIVATE LIMITED

31 October, 2017

Rating Assigned



Total Bank Facilities Rated*	Rs. 70.00 Cr.
Long Term Rating	SMERA BBB- / Outlook: Stable
Short Term Rating	SMERA A3

* Refer Annexure for details

Rating Rationale

SMERA has assigned long-term rating of '**SMERA BBB-**' (**read as SMERA triple B minus**) and short term rating of '**SMERA A3**' (**read as SMERA A three**) on the Rs. 70.00 crore bank facilities of SJLT SPINNING MILLS PRIVATE LIMITED. The outlook is '**Stable**'.

SJLT Spinning Mills Private Limited (SMPL), incorporated in 2005 is engaged in the manufacture of cotton yarn at Namakkal, Tamil Nadu. The company, led by Mr. Jagadeesan Veerappan, Managing Director has total capacity of ~75000 spindles.

For arriving at the rating, SMERA has consolidated the business and financial risk profiles of SMPL & SJLT Textiles Pvt Ltd. (STPL) together known as the SJLT Group. STPL is a group company engaged in a similar line of activity at Namakkal, Tamil Nadu. The consolidated approach is followed on account of a common management, similarities in the lines of activity and significant operational synergies between the two companies. The promoters also have presence in logistics, construction, granites and power generation sectors.

Key Rating Drivers

Strengths

• Established presence in textiles, experienced management

The group commenced operations in textiles in 1994 under the leadership of Mr V.Jagadeesan and Mr V.Selvaduraiat Namakkal, Tamil Nadu. The group has over the years established healthy relationships with customers and suppliers, which is reflected in the repeat orders from customers. Some of the key customers include Poppys Knitwear Pvt Ltd, Kedia Brothers and Himatsingka Linens. The group specialises in yarn of count 60s and 80s.

• Healthy operating margin

The group registered healthy operating margins of 16.3 per cent in FY2017 (Provisional) compared to 10.5 per cent in FY2016 on the back of improved realisations in Q1FY2017. Exports comprised ~20 percent of the total turnover. The group manufactures cotton yarn of counts 60s to 80s, a high margin segment. Besides, the group also benefits from its windmill initiatives which results in savings. The margins have been around 13 percent in the past. The group is expected to maintain the same margins going forward in line with past trends. The group reported operating income of Rs. 314.3 crore in FY2017 (Provisional) up from Rs. 290.6 crore, in FY2014 registering CAGR of 2.6 percent. This is largely due to capacities running at over 90 percent utilisation.

• Improvement in the financial risk profile

The comfortable financial risk profile is marked by healthy operating margins, which stood at 16.34 per cent in FY2017 (Provisional) as against 10.47 percent in the previous year. The net margins also improved to 7.00 percent in FY2017 (Provisional) from 2.33 percent in FY2016. The gearing stood at 1.50 times as on 31 March, 2017 as against 2.06 times in the previous year. The Interest coverage stood at 4.66 times and NCA/TDA at 0.25 times as on 31 March, 2017.

- **Comfortable working capital utilisation levels**

The working capital limits of STPL and SMPL stood at Rs. 45 crore and Rs. 30 crore respectively while utilisation levels were at 48.15 per cent and 48.17 percent respectively. The levels have been comfortable over the years which further helped the total debt levels and leverage ratios.

Weaknesses

- **Margins susceptible to volatility in cotton prices**

The margins are susceptible to volatility in cotton prices. The group procures raw materials primarily from the domestic market along with nominal imports of ~10 per cent for a few premium varieties. The prices of yarn also follows cotton prices but with a lag of around three months. Overall, the management is quite comfortable with the current demand scenario and expects cotton prices to stabilise at the current levels.

- **Intense competition in the textile industry**

The group is exposed to intense competition in the highly fragmented Indian textile industry from organised and unorganised players. The competition is limited in the premium segment which constitutes around 80 per cent of the group's overall product portfolio. The competition in the lower count segment is largely on pricing owing to the presence of unorganised players.

Analytical Approach

SMERA has considered the consolidated business and financial risk profiles of SJLT Textiles Private Limited (STPL) and SJLT Spinning Mills Private Limited (SMPL). The consolidation is owing to the common promoters, shared brand name, common treasury and financial synergies within the group.

Outlook: Stable

SMERA believes that the outlook on the SJLT group will remain stable over the medium term. The outlook may be revised to 'Positive' in case the company registers significant increment in its revenue and profitability while improving its liquidity position. Conversely, the outlook may be revised to 'Negative' in case of deterioration in its financial risk profile and stretched working capital cycle.

About the Rated Entity - Key Financials

For FY2017 (Provisional), the SJLT group reported operating income of Rs.314.26 crore compared to Rs.316.05 crore in the previous year. Further, it reported profit after tax (PAT) of Rs. 21.99 crore for FY2017 (Provisional) as against Rs. 7.36 crore in the previous year. The tangible networth stood at Rs. 86.14 crore as on 31 March, 2017 as against Rs. 64.16 crore in the previous year.

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

India Ratings revised the ratings of the company to non-cooperating category, with the following rationale on September 27, 2017: 'India Ratings and Research (Ind-Ra) has migrated SJLT Spinning Mills Private Limited's (SJLT) Long-Term Issuer Rating to the non-cooperating category. The issuer did not participate in the rating exercise despite continuous requests and follow-ups by the agency. Therefore, investors and other users are advised to take appropriate caution while using these ratings. The rating will now appear as 'IND BB+(ISSUER NOT COOPERATING)' on the agency's website.

Any other information

Not Applicable

Applicable Criteria

- Default Recognition-<https://www.smerra.in/criteria-default.htm>
- Consolidation Of Companies-<https://www.smerra.in/criteria-consolidation.htm>
- Financial Ratios And Adjustments-<https://www.smerra.in/criteria-fin-ratios.htm>
- Manufacturing Entities-<https://www.smerra.in/criteria-manufacturing.htm>

Note on complexity levels of the rated instrument
<https://www.smera.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Not Applicable

***Annexure - Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
Term loans	Not Applicable	Not Applicable	Not Applicable	16.82	SMERA BBB- / Stable
Cash Credit	Not Applicable	Not Applicable	Not Applicable	30.00	SMERA BBB- / Stable
Term loans	Not Applicable	Not Applicable	Not Applicable	6.26	SMERA BBB- / Stable
Term loans	Not Applicable	Not Applicable	Not Applicable	3.92	SMERA BBB- / Stable
Post Shipment Credit	Not Applicable	Not Applicable	Not Applicable	3.00	SMERA A3
LC/BG	Not Applicable	Not Applicable	Not Applicable	10.00	SMERA A3

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ABOUT SMERA

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