



Press Release

SJLT Spinning Mills Private Limited

October 25, 2018

Rating Assigned and Upgraded

Total Bank Facilities Rated*	Rs. 90.00 Cr.
Long Term Rating	ACUITE BBB/ Outlook: Stable
Short Term Rating	ACUITE A3+

* Refer Annexure for details

Rating Rationale

Acuité has upgraded the long term rating to '**ACUITE BBB**' (**read as ACUITE triple B**) from '**ACUITE BBB-**' (**read as ACUITE triple B minus**) and short term rating to '**ACUITE A3+**' (**read as ACUITE A3 plus**) from '**ACUITE A3**' (**read as ACUITE A3**) on the Rs.70.00 crore bank facilities. Acuité has also assigned the long term rating of '**ACUITE BBB**' (**read as ACUITE triple B**) on the Rs.20.00 crore bank facilities of SJLT Spinning Mills Private Limited (STPL). The outlook is 'Stable'.

SJLT Spinning Mills Private Limited (SSPL) was incorporated as a private limited company in 2005. The company was started by Mr. Jagatheesan who is having an experience of over three decades in the textile industry. Located in Namakkal, Tamilnadu, STPL's spinning units currently have a combined installed capacity of 74880 spindles manufacturing cotton yarn of counts 40s to 100s.

About Group Company: SJLT Textiles Private Limited (STPL) was incorporated as a private limited company in 1994. The company was started by Mr. Jagatheesan who is having an experience of over three decades in the textile industry. Located in Namakkal, Tamilnadu, STPL's spinning units currently have a combined installed capacity of 91248 spindles manufacturing cotton yarn of counts 40s to 100s. The unit is also supported by 3144 rotors.

The rating upgrade reflects improvement in the profitability along with sustained revenues. The group has reported profit after tax (PAT) of about Rs.25.67 crore in FY2018 against earlier estimate of Rs.19.50 crore. Also, revenues are improving though marginally from Rs.311.95 crore and Rs. 341.75 in FY2017 and FY2018 respectively. The rating upgrade also factors in healthy capital structure though partly constrained by moderate working capital operations.

Analytical Approach

Acuité has considered the consolidated business and financial risk profile of SJLT Textiles Private Limited, SJLT Spinning Mills Private Limited (hereinafter referred to as group) due to similarity in the lines of business and common management.

Key Rating Drivers

Strengths

- Established Track record of operations and experienced management**

The group is promoted by Mr. Jagatheesan, who has around three decades of experience in the textile industry. The group was started in 1994 and has gradually expanded to the present total capacity of 166128 spindles at its plants in Namakkal, Tamil Nadu. The units are located in textile hub of Erode, Coimbatore and Tirupur. The units are also supported by auxiliary power sources of 11.25 MW Windmill capacities and 3.35 MW rooftop solar power units. The group has a competent management supported by a team of well qualified and experienced second line personnel. The promoter's experience in textile industry has helped the company build healthy relationship with its suppliers and customers, to ensure a steady raw material supply and large offtake. The company procures cotton (major raw material) from suppliers in Tamil Nadu, Karnataka and Andhra Pradesh. For FY2018, top ten customers of the company contributed ~50 percent of total revenues providing low customer concentration risk. Majority of its revenues comes from Mumbai and Tirupur market. Acuité believes that promoter's extensive experience in textile industry would aid the business risk profile of the company over the medium term.

- Healthy financial risk profile**

The group's financial risk profile is marked by healthy capital structure and comfortable debt protection metrics. The gearing has improved to 0.70 times as on March 31, 2018 from 1.80 times as on March, 2016 supported by comfortable cash accruals and retirement of term loans. Net worth is comfortable at Rs.124.97 crore in FY2018, due to better EBITDA margins supporting accretion to reserves. Comfortable net cash accruals and debt has led to comfortable NCA/TD and interest coverage ratio of 0.41 times and 6.83 times in FY2018 vis-à-vis 0.27 times and 4.57 times in FY2017, respectively. The group's cash accruals are expected around Rs.38.00 crore to Rs.45.00 crore against repayment obligations of about Rs.11 crore to Rs.12 crore in FY2019 which gives adequate cushion on its liquidity. Acuité believes that with moderate profitability margins and no significant capex plans, the financial risk profile is expected to improve over the medium term.

Weaknesses

- Moderate working capital operations**

The group has moderate working capital operations as evident from its Gross Current Assets (GCA) of 131 days as on March 31, 2018 as against 139 days as on March 31, 2017. The group maintains an inventory of about three months, and offers credit of about a month to its clientele; resulted in inventory and receivable days of about 95 and 31 as on March 31, 2018. Moderate working capital management along with credit of 25-40 days from its suppliers supported in moderate utilisation of its working capital limits at about 50 percent over the past six months ended Sept 2018. As the raw materials are available throughout the year and manufacturing and sales operations too, the operations continue to be working capital intensive over the medium term.

- Revenue growth limited to capacity constraints**

The revenue witnessed nominal growth at a compound annual growth rate (CAGR) of 4 per cent over the past three years due to high utilisation of its installed spindle units at about 91 percent in FY2018, and no enhancement in spindle capacity. The nominal growth in the revenue was owing to improving realisations. The group is not planning for any significant capital expenditure except debottlenecking of its existing facilities, which may support in marginal growth by about 10 percent over the medium term. However, its revenues continue to be range bound of Rs.360.0 - 400.0 crore constrained by capacity.

Outlook: Stable

Acuité believes that the group will maintain a 'Stable' outlook over the medium term from its promoter's industry experience. The outlook may be revised to 'Positive' in case of significant growth in its revenues while maintaining its profitability. Conversely, the outlook may be revised to 'Negative' in case of any stretch in its working capital operations or any significant debt-funded capex leading to deterioration of its financial risk profile and liquidity.

About the Rated Entity - Key Financials

	Unit	FY18 (Audited)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	341.75	311.95	314.98
EBITDA	Rs. Cr.	55.42	51.03	33.85
PAT	Rs. Cr.	25.67	20.70	8.06
EBITDA Margin	(%)	16.22	16.36	10.75
PAT Margin	(%)	7.51	6.64	2.56
ROCE	(%)	20.21	19.11	13.32
Total Debt/Tangible Net Worth	Times	0.70	1.26	1.80
PBDIT/Interest	Times	6.83	4.57	2.53
Total Debt/PBDIT	Times	1.57	2.33	3.52
Gross Current Assets (Days)	Days	131	139	108

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

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Manufacturing Entities - <https://www.acuite.in/criteria-manufacturing.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/criteria-fin-ratios.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Crore)	Ratings/Outlook
31-Oct-2017	Term Loan	Long Term	16.82	ACUITE BBB-/Stable (Assigned)
	Cash Credit	Long Term	30.00	ACUITE BBB-/Stable (Assigned)
	Term Loan	Long Term	6.26	ACUITE BBB-/Stable (Assigned)
	Term Loan	Long Term	3.92	ACUITE BBB-/Stable (Assigned)
	Post Shipment Credit	Short Term	3.00	ACUITE A3 (Assigned)
	Letter of Credit	Short Term	10.00	ACUITE A3 (Assigned)

***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 Loan	Not Applicable	Not Applicable	Not Applicable	15.55	ACUITE BBB/ Stable (Upgraded)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	30.00	ACUITE BBB/ Stable (Upgraded)
Term Loan	Not Applicable	Not Applicable	Not Applicable	4.64	ACUITE BBB/ Stable (Upgraded)
Term Loan	Not Applicable	Not Applicable	Not Applicable	0.06	ACUITE BBB/ Stable (Upgraded)
Proposed	Not Applicable	Not Applicable	Not Applicable	6.75	ACUITE BBB/ Stable (Upgraded)
Proposed	Not Applicable	Not Applicable	Not Applicable	20.00	ACUITE BBB/ Stable (Assigned)
Post Shipment Credit	Not Applicable	Not Applicable	Not Applicable	3.00	ACUITE A3+ (Upgraded)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE A3+ (Upgraded)

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About Acuité Ratings & Research:

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