

Press Release

SJLT SPINNING MILLS PRIVATE LIMITED

January 16, 2020



Rating Reaffirmed

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 reaffirmed the long term rating of '**ACUITE BBB**' (**read as ACUITE triple B**) and the short term rating of '**ACUITE A3+**' (**read as ACUITE A three plus**) to the Rs.90.00 crore bank facilities of SJLT SPINNING MILLS Private Limited (SJLT). The outlook is '**Stable**'.

SJPL, incorporated in 2005 is engaged in the business of manufacturing of yarn. The day to day operations of the company are managed by its managing director, Mr. Jagatheesan along with other directors, Mr. Veerappan Selvadurai, Mr. Chinnusamy Sureshbabu and Mrs. Padmavathi Jagadeesan. The manufacturing unit is located in Namakkal, Tamilnadu with an installed capacity of 74,880 spindles.

About Group Company:

SJLT Textiles Private Limited (STPL), incorporated in 1994 is engaged in the business of manufacturing of yarn. The day to day operations of the company are managed by its managing director, Mr. Jagatheesan along with other directors, Mr. Veerappan Selvadurai, Mr. Chinnusamy Sureshbabu and Mrs. Padmavathi Jagadeesan. The manufacturing unit is located in Namakkal, Tamilnadu with an installed capacity of 91,248 spindles.

Analytical Approach

Acuité has considered the consolidated business and financial risk profile of SJLT Textiles Private Limited and SJLT Spinning Mills Private Limited (hereinafter referred to as group). The consolidation is in view of similar line of business and common management. Extent of consolidation: Full.

Key Rating Drivers

Strengths

• 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 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.

Acuité believes that promoter's extensive experience in textile industry would aid the business risk profile of the company over the medium term.

• Steady scale of operations and margins

The revenue of the company has grown at a CAGR of 6.00 percent. The revenue stood at Rs.341.75 crore in FY2018 as against Rs.311.95 crore in the previous year. Further, the revenue grew by ~2.57 percent in FY2019 and stood at Rs.350.52 crore. The operating margins stood at 15.43 per cent in FY2019 as against 16.22 per cent in FY2018 and 16.36 per cent in FY2017. Profit After Tax (PAT) margins have increased to 7.88 per cent in FY2019 from 7.51 per cent in FY2018 and 6.64 per cent in FY2017. Further, revenues registered for the period April, 2019 to November, 2019 is around Rs.240.06 crore and operating margins stood at 16.82 per cent and Profit after Tax (PAT) margins stood at 11.16 per cent.

Acuité believes that the scale of operations will continue to increase but at moderate level due to stress in the industry along with slow growth in Indian economy. Further, company will continue to maintain the margins because of the better procurement of raw materials in terms of price and quality.

- **Healthy financial risk profile:**

The financial risk profile of SJLT is healthy marked by healthy net worth, low gearing and healthy debt protection measures. The net worth stood at Rs.153.00 crore as on 31 March, 2019 as against Rs.124.97 crore in the previous year. The gearing (debt-equity) is low marked by 0.87 times as on 31 March, 2019 as against 0.70 times as on 31 March, 2018. The total debt as on 31 March, 2019 of Rs.132.90 crore majorly comprises of term loan of Rs.45.08 and working capital facility of Rs.87.82 crore. Interest Coverage Ratio (ICR) stood at 6.07 times for FY2019 as against 6.83 times for FY2018. Debt Servicing Coverage Ratio (DSCR) stood at 1.49 times for FY2019 as against 1.71 times for FY2018. Total outside Liabilities to Tangible Net Worth (TOL/TNW) stood at 1.12 times as on 31 March, 2019 as against 1.05 times as on 31 March, 2018. Net cash accrual to total debt (NCA/TD) stood at 0.29 times for FY2019 as against 0.41 times for FY2018.

Acuité believes that the financial risk profile of SJLT will continue to remain moderate over the medium term on account of its improving scale of operations and net cash accruals.

Weaknesses

- **Intensive working capital management**

SJLT has intensive working capital operations marked by high Gross Current Assets (GCA) of 187 days in FY2019 as against 131 days in FY2018. The inventory and debtor levels stood at 122 and 65 days in FY2019 as against 95 and 31 days in FY2018, respectively. Considering the seasonality of cotton crop i.e. October to March, which is the procurement period of raw cotton, the working capital operations look intensive as on 31st March. In FY2019, working capital operations have deteriorated further because company had procured additional cotton during March, 2019 as the cotton was available at a good price and better quality. Further, the benefits of the same has been reflected in the profitability in YTD figures for the period April, 2019 to December, 2019. Further, the bank limits are not utilized for the last six months ending December, 2019.

Acuité believes that the working capital cycle will continue to look intensive over the medium term on account of business cycle of cotton industry.

- **Susceptibility of operating margins to volatility in raw material prices**

Operating margins of cotton spinners are susceptible to changes in cotton prices, which are highly volatile and commoditized product. Any abrupt change in cotton prices due to supply-demand scenario, carry-over stocks in the overseas market, and government regulations of changes in minimum support price (MSP) can lead to distortion in market prices and affect the profitability of players across the cotton value chain, including spinners.

Rating Sensitivity

- Significant improvement in the operating performance of the company.
- Further deterioration in GCA days.

Material Covenants

None.

Liquidity Position: Healthy

SJLT has healthy liquidity marked by healthy net cash accruals to its maturing debt obligations. The company generated cash accruals of Rs.38.51 crore in FY2019 as against Rs.35.84 crore in FY2018 and Rs.30.70 crore in FY2018, while its maturing debt obligation was Rs.9.70 crore in FY2019, Rs.22.79 crore in FY2018 and Rs.17.58 crore in FY2018. The cash accruals of the company are estimated to remain around Rs.41.36 to 47.71 crore during 2019-21. The company's working capital operations are intensive as marked by high gross current asset (GCA) days of 187 in FY2019. However, working capital borrowings are not utilized during the last 6 months' period ended December, 2019. The company maintains unencumbered cash and bank balances of Rs.1.42 crore as on March 31, 2019. The current ratio of the company stands at 1.49 times as on March 31, 2019.

Acuite believes that the liquidity of the company is likely to remain adequate over the medium term on account of healthy cash accrual and scale of operations.

Outlook: Stable

Acuité believes that SJLT will maintain a 'Stable' outlook over the medium term on the back of the promoters' experience in the cotton textile industry. The outlook may be revised to 'Positive' if there is substantial and sustained improvement in SJLT's operating income or profitability, while maintaining its working capital cycle. Conversely, the outlook may be revised to 'Negative' in case of weakening of its capital structure and debt protection metrics.

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	347.55	341.75
PAT	Rs. Cr.	27.64	25.67
PAT Margin	(%)	7.95	7.51
Total Debt/Tangible Net Worth	Times	0.87	0.70
PBDIT/Interest	Times	6.07	6.83

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-17.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>
- Consolidation of companies - <https://www.acuite.in/view-rating-criteria-60.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. Cr.)	Ratings/Outlook
25-Oct-2018	Term Loan	Long Term	15.55	ACUITE BBB/Stable (Upgraded from ACUITE BBB- /Stable)
	Cash Credit	Long Term	30.00	ACUITE BBB/Stable (Upgraded from ACUITE BBB- /Stable)
	Term Loan	Long Term	4.64	ACUITE BBB/Stable (Upgraded from ACUITE BBB- /Stable)
	Term Loan	Long Term	0.06	ACUITE BBB/Stable (Upgraded from ACUITE BBB- /Stable)
	Proposed Bank Facility	Long Term	6.75	ACUITE BBB/Stable (Upgraded from ACUITE BBB- /Stable)
	Proposed Bank Facility	Long Term	20.00	ACUITE BBB/Stable (Upgraded from ACUITE BBB- /Stable)

				ACUITE BBB-/Stable)
	Post Shipment Credit	Short Term	3.00	ACUITE A3+ (Upgraded from ACUITE A3)
	Letter of Credit	Short Term	10.00	ACUITE A3+ (Upgraded from ACUITE A3)
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. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	30.00	ACUITE BBB/Stable (Reaffirmed)
Post Shipment Credit	Not Applicable	Not Applicable	Not Applicable	3.00	ACUITE A3+ (Reaffirmed)
Term Loan	Not Applicable	Not Applicable	Not Applicable	11.78	ACUITE BBB/Stable (Reaffirmed)
Term Loan	Not Applicable	Not Applicable	Not Applicable	12.87	ACUITE BBB/Stable (Reaffirmed)
Term Loan	Not Applicable	Not Applicable	Not Applicable	0.01	ACUITE BBB/Stable (Reaffirmed)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	22.34	ACUITE BBB/Stable (Reaffirmed)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE A3+ (Reaffirmed)

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About Acuité Ratings & Research:

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