

Press Release

SJLT Spinning Mills Private Limited

January 21, 2021

Rating Upgraded, Assigned and Withdrawn



Total Bank Facilities Rated*	Rs. 90.00 Cr.
Long Term Rating	ACUITE BBB+/Stable (Upgraded from ACUITE BBB/Stable)
Short Term Rating	ACUITE A2 (Withdrawn)

* Refer Annexure for details

Rating Rationale

Acuite has upgraded the long term rating to '**ACUITE BBB+**' (read as **ACUITE triple B plus**) from '**ACUITE BBB**' (read as **ACUITE triple B**) on the Rs.57.00 crore bank facilities of SJLT Spinning Mills Private Limited (SJLT). The outlook is '**Stable**'.

Acuite has assigned the long term rating of '**ACUITE BBB+**' (read as **ACUITE triple B plus**) on the Rs.33.00 crore bank facilities of SJLT Spinning Mills Private Limited (SJLT). The outlook is '**Stable**'.

Acuite has withdrawn the long term rating of '**ACUITE BBB+**' (read as **ACUITE triple B plus**) and short term rating of '**ACUITE A2**' (read as **ACUITE A two**) on the Rs.54.57 crore bank facilities of SJLT Spinning Mills Private Limited (SJLT).

Reason for upgrade in rating

Rating upgrade is reflected by strong liquidity position and profitability along with the acquisition of new manufacturing unit. Net worth stood healthy at Rs.185.42 crore as on 31 March, 2020. Operating margins of the group increased to 16.89 per cent for FY2020 from 15.43 per cent in FY2019. Further, PAT margins increased to 8.74 per cent for FY2020 from 7.88 per cent in FY2019. Acquisition of new unit has increased group's capacity to 227328 spindles from 166128 spindles. Commercial operations has started from January, 2021 due to which scale of operations are expected to increase further.

Acuite believes that the rating will be supported with the extensive experience of the management along with its healthy relationship with customers and suppliers.

About the company

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 installed capacity of 110880 spindles manufacturing cotton yarn of counts 40s to 100s.

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

Acuite 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 227328 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.

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

• Improvement in profitability:

The operating margins improved to 16.89 per cent in FY2020 from 15.43 per cent in FY2019. This is majorly of higher realisation from finer counts' yarn. Profit After Tax (PAT) margins have increased to 8.74 per cent in FY2020 from 7.88 per cent in FY2019 and 7.51 per cent in FY2018. Further, operating margins stood high at around 20.95 per cent for the period April to November, 2020.

Acuite believes that the group will continue to maintain the margins because of the better procurement of raw materials and realisation on produce in terms of price and quality.

• Healthy financial risk profile:

The financial risk profile of SJLT Group is healthy marked by healthy net worth, low gearing and healthy debt protection measures. The net worth stood at Rs.185.42 crore as on 31 March, 2020 as against Rs.153.00 crore in the previous year. The gearing (debt-equity) is low marked by 0.37 times as on 31 March, 2020 as against 0.87 times as on 31 March, 2019. The total debt as on 31 March, 2020 of Rs.68.05 crore majorly comprises of term loan of Rs.32.20 and working capital facility of Rs.35.84 crore. Interest Coverage Ratio (ICR) improved to 9.77 times for FY2020 from 6.07 times for FY2019. Debt Servicing Coverage Ratio (DSCR) improved to 2.86 times for FY2020 from 1.49 times for FY2019. Total outside Liabilities to Tangible Net Worth (TOL/TNW) improved to 0.53 times as on 31 March, 2020 from 1.12 times as on 31 March, 2019. Net cash accrual to total debt (NCA/TD) improved to 0.56 times for FY2020 from 0.29 times for FY2019.

Acuite believes that the financial risk profile of SJLT Group will continue to remain healthy over the medium term inspite of increase in long term debt for acquisition of new unit. This is backed by healthy net cash accruals and order book.

Weaknesses

• Reduction in scale of operations

The revenue of the group has reduced at a CAGR of 5.59 percent. The revenue stood at Rs.350.52 crore in FY2019 as against Rs.341.75 crore in the previous year. Further, the revenue deteriorated by ~13.10 percent in FY2020 and stood at Rs.304.62 crore. This is majorly because of the change in group's production pattern as they had shifted to manufacturing of finer count yarn during FY2020. This was necessitated on account of favorable change in demand and profit dynamics for finer count yarn as against coarser count yarn. While this had led to reduction in revenues in FY2020, the group's operating margins improved in FY2019 and FY2020. Further, revenues registered for the period April, 2020 to November, 2020 is around Rs.155.95 crore.

Acuite believes that the scale of operations will further increase at the back of acquisition of new unit whose commercial operations has started from January, 2021 along with maintaining the profitability margins.

• Moderate working capital management:

SJLT Group has moderate working capital operations marked by high Gross Current Assets (GCA) of 132 days in FY2020 as against 187 days in FY2019. The inventory and debtor levels stood at 76 and 41 days in FY2020 as against 122 and 65 days in FY2019, respectively. Considering the seasonality of cotton crop, i.e. October to March, companies in this line of business have to make procurement of raw cotton during last quarter. Hence, the working capital operations look intensive as on 31st March. Further, the bank limits are not utilized for the last six months ending November, 2020.

Acuite 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.

Liquidity Position: Strong

SJLT Group has strong liquidity marked by healthy net cash accruals to its maturing debt obligations. The group generated cash accruals of Rs.37.84 crore in FY2020 as against Rs.38.51 crore in FY2019, while its maturing debt obligation was Rs.9.70 crore in FY2019, Rs.22.79 crore in FY2018. The net cash accrual of the group is expected to remain around Rs.38.00 to 69.00 crore during 2021-23. The company's working capital operations are intensive as marked by high gross current asset (GCA) days of 132 in FY2020. However, working capital borrowings are not utilized during the last 6 months' period ended November, 2020. The group maintains unencumbered cash and bank balances of Rs.1.41 crore as on March 31, 2020. The current ratio of the group stands at 1.86 times as on March 31, 2020.

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

Outlook: Stable

Acuite believes that SJLT will maintain a 'Stable' outlook over the medium term from the industry experience of its promoters. 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.

Rating Sensitivities

- Significant improvement in scale of operations along with profitability.
- Stretch in working capital cycle and deterioration in liquidity position.

Material Covenants

None

About the Rated Entity - Key Financials

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Crore	304.62	350.52
Profit after tax (PAT)	Rs. Crore	26.61	27.64
PAT margin	%	8.74	7.88
Total debt / Tangible Net worth	Times	0.37	0.87
PBDIT / Interest	Times	9.77	6.07

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

None.

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>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.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/view-rating-criteria-55.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
16-Jan-2020	Cash Credit	Long Term	30.00	ACUITE BBB/Stable (Reaffirmed)
	Post Shipment Credit	Short Term	3.00	ACUITE A3+ (Reaffirmed)
	Term Loan	Long Term	11.78	ACUITE BBB/Stable (Reaffirmed)
	Term Loan	Long Term	12.87	ACUITE BBB/Stable (Reaffirmed)
	Term Loan	Long Term	0.01	ACUITE BBB/Stable (Reaffirmed)
	Proposed Bank Facility	Long Term	22.34	ACUITE BBB/Stable (Reaffirmed)
	Letter of Credit	Short Term	10.00	ACUITE A3+ (Reaffirmed)
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)
	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+ (Withdrawn)
Post Shipment Credit	Not Applicable	Not Applicable	Not Applicable	3.00	ACUITE A2 (Withdrawn)
Term Loan	Not Applicable	Not Applicable	Not Applicable	11.78	ACUITE BBB+ (Withdrawn)
Term Loan	Not Applicable	Not Applicable	Not Applicable	5.09	ACUITE BBB+/Stable (Upgraded from ACUITE BBB/Stable)
Term Loan	Not Applicable	Not Applicable	Not Applicable	0.01	ACUITE BBB+ (Withdrawn)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	45.00	ACUITE BBB+/Stable (Upgraded from ACUITE BBB/Stable)
Term Loan	Not Applicable	Not Applicable	Not Applicable	33.00	ACUITE BBB+/Stable (Assigned)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE A2 (Withdrawn)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	6.91	ACUITE BBB+/Stable (Upgraded from ACUITE BBB/Stable)

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About Acuite Ratings & Research:

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