

Press Release

SJLT Spinning Mills Private Limited

April 11, 2022



Rating Upgraded and Upgraded & Withdrawn

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	5.09	ACUITE A- Upgraded & Withdrawn	-
Bank Loan Ratings	90.00	ACUITE A- Stable Upgraded	-
Total Outstanding Quantum (Rs. Cr)	90.00	-	-
Total Withdrawn Quantum (Rs. Cr)	5.09	-	-

Rating Rationale

Acuite has upgraded the long-term rating to **'ACUITE A-' (read as ACUITE A minus)** from **'ACUITE BBB+' (read as ACUITE triple B plus)** on the Rs.90.00 Cr. bank facilities of SJLT Spinning Mills Private Limited (SSMPL). The outlook is **'Stable'**.

Further, Acuite has upgraded and withdrawn the long-term rating of **'ACUITE A-' (read as ACUITE A minus)** from **'ACUITE BBB+' (read as ACUITE triple B plus)** on the Rs.5.09 Cr. bank facilities of SJLT Spinning Mills Private Limited (SSMPL).

The rating is being withdrawn on account of the request received from the entity and the NDC received from the banker as per Acuite's policy on withdrawal of ratings.

Rationale for upward revision of ratings

The rating revision draws comfort from a strong liquidity position and profitability in FY2021 and significant growth expected in FY2022 due to the realization of benefits from the acquisition of a new manufacturing unit in FY2021. The Group has reported revenue of Rs.451.32 Cr. in 9M FY2022 against Rs.302.88 Cr. in FY2021 with operating profitability increasing to 23.96 percent for 9M FY2022 against 16.73 percent in FY2021. This is primarily on account of Group's focus on super-premium products of higher counts in FY2022. The revenue of SJLT is expected to grow to ~Rs.600.00 Cr. in FY2022 as against Rs.302.88 Cr. in FY2021. The acquisition of the new unit has increased the group's capacity to 227328 spindles from 166128 spindles.

About Company

SJLT Spinning Mills Private Limited (SSMPL) 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, SSMPL's spinning units currently have an installed capacity of 110880 spindles manufacturing cotton yarn of counts 40s to 100s.

About the Group

Based out of Tamil Nadu, SJLT Group consists of SJLT Spinning Mills Private Limited (SSMPL) and SJLT Textiles Private Limited (STPL), both the entities are engaged in the manufacturing of Yarn

comprising of multiple counts catering majorly to the premium and super-premium segment with a total manufacturing capacity of 2.27 lakh spindles.

Analytical Approach

Extent of Consolidation

- Full Consolidation

Rationale for Consolidation or Parent / Group / Govt. Support

Acuite has considered the consolidated business and financial risk profile of SJLT Textiles Private Limited (STPL) and SJLT Spinning Mills Private Limited (SSMPL), hereinafter referred to as SJLT Group (SJLT), to arrive at the rating. The consolidation is in view of a 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 2.27 lakh spindles with utilization levels of ~95 percent at its plants in Namakkal, Tamil Nadu. The units are located in the textile hubs 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 the promoter's extensive experience in the textile industry would aid the business risk profile of the company over the medium term.

Improvement in the business risk profile

The business risk profile of SJLT has witness improvement marked by operating income of more than Rs.550 Cr. till February 2022 as against Rs.302.88 Cr in FY2021 and Rs.304 Cr. in FY2020. Improvement is majorly on account of materialization of benefits accrued from sick unit purchased in FY2020 and the company's focus to manufacture and market higher-margin premium products. The acquisition of the new unit has increased the group's capacity to 227328 spindles from 166128 spindles. The company has shifted its focus to 80s and 100s count currently from 40s and 60s count earlier, which has helped the company improve its revenue and realizations per unit. The operating margins improved to over 20 percent for 9M FY2022 from 16.73 percent in FY2021 from 16.63 percent in FY2020, while the PAT margins stood at 8.20 percent in FY2021 as against 8.74 percent in FY2020. Further, the capacity utilization at the group level stands at more than 95 percent.

Acuite believes that the group will continue to maintain the margins because of the better procurement of raw materials and realization of products 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 moderate debt protection measures. The net worth stood healthy at Rs.189.62 crore as on 31 March, 2021 as against Rs.164.78 crore as on March 31, 2020. Unsecured Loans earlier treated as quasi-equity are now being treated as noncommittal, unsecured loans forming part of the existing debt profile. The revision, however, does not materially impact the capital structure. Leverage indicators continue to remain low marked by gearing (debt-equity) of 0.46 times as on 31 March, 2021 as against 0.54 times as on 31 March, 2020, while the Total outside Liabilities to Tangible Net Worth (TOL/TNW) stood stable at 0.72 times as on 31 March, 2021 as against 0.72 times as on 31 March, 2020. Coverage indicators stand moderate marked by the Interest Coverage Ratio (ICR) of 11.46 times for FY2021 as against 9.77 times for FY2020, while the Debt Servicing Coverage Ratio (DSCR) stood at 2.58 times for FY2021 from 5.20 times for FY2020. Net cash accrual to total debt (NCA/TD) improved to 0.41 times for FY2021 from 0.43 times for FY2020.

Acuité believes that the financial risk profile of SJLT Group will continue to remain healthy over the medium term backed by healthy net cash accruals and order book.

Weaknesses

Moderation in working capital management

SJLT's moderate working capital operations have moderated marked by high Gross Current Assets (GCA) of 170 days in FY2021 as against 132 days in FY2020. The moderation in GCA is majorly due to an increase in other current assets, cash and bank balances, and inventory due to the lockdown in FY2021 to 112 days as against 76 days in FY2020. Inventory days in FY2022 are expected to reduce below FY2020 levels. The debtor levels have remained consistent at 45 days in FY2021 as against 41 days in FY2020. Considering the seasonality of the cotton crop, i.e. October to March, companies in this line of business have to make procurement of raw cotton during the last quarter. Hence, the working capital operations look intensive as on 31st March. Further, the bank limits utilization stood low for the last six months period ending February 2022.

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

Susceptibility of operating margins to volatility in raw material prices

The operating margins of cotton spinners are susceptible to changes in cotton prices, which are highly volatile and commoditized products. Any abrupt change in cotton prices due to the 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 Sensitivities

- Significant improvement in scale of operations, while maintaining its profitability margins.
- Deterioration in the working capital cycle leading to stress on the debt coverage indicators or the liquidity position of the entity.

Material Covenants

None

Liquidity Position: Strong

SJLT has strong liquidity marked by healthy net cash accruals to its maturing debt obligations. The group generated cash accruals of Rs.36.45 crore while its maturing debt obligation stood below Rs.5.00 crore in FY2021. The net cash accrual of the group is expected to significantly improve to Rs.80.00 to 100.00 crore during the 2022-24 period. The working capital borrowings stand low for the 6 month period ended February 2022 as informed by the banker. The group maintains unencumbered cash and bank balances of Rs.2.25 crore as on March 31, 2021, while the current ratio of the group stands at 2.25 times as on March 31, 2021.

Outlook: Stable

Acuité 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 a 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 a weakening of its capital structure and debt protection metrics.

Key Financials

Particulars	Unit	FY 21 (Actual)	FY 20 (Actual)
Operating Income	Rs. Cr.	302.88	304.62
PAT	Rs. Cr.	24.84	26.61
PAT Margin	(%)	8.20	8.74
Total Debt/Tangible Net Worth	Times	0.46	0.54
PBDIT/Interest	Times	11.46	9.77

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

Not Applicable

Any Other Information

None

Applicable Criteria

- Application Of 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>
- Default Recognition: <https://www.acuite.in/view-rating-criteria-52.htm>
- Manufacturing Entities: <https://www.acuite.in/view-rating-criteria-59.htm>

Note on Complexity Levels of the Rated Instrument<https://www.acuite.in/view-rating-criteria-55.htm>**Rating History**

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
21 Jan 2021	Term Loan	Long Term	11.78	ACUITE BBB+ (Withdrawn)
	Cash Credit	Long Term	30.00	ACUITE BBB+ (Withdrawn)
	Post Shipment Credit	Short Term	3.00	ACUITE A2 (Withdrawn)
	Letter of Credit	Short Term	10.00	ACUITE A2 (Withdrawn)
	Term Loan	Long Term	33.00	ACUITE BBB+ Stable (Assigned)
	Term Loan	Long Term	0.01	ACUITE BBB+ (Withdrawn)
	Term Loan	Long Term	5.09	ACUITE BBB+ Stable (Upgraded from ACUITE BBB Stable)
	Cash Credit	Long Term	45.00	ACUITE BBB+ Stable (Upgraded from ACUITE BBB Stable)
	Proposed Bank Facility	Long Term	6.91	ACUITE BBB+ Stable (Upgraded from ACUITE BBB Stable)
16 Jan 2020	Post Shipment Credit	Short Term	3.00	ACUITE A3+ (Reaffirmed)
	Proposed Bank Facility	Long Term	22.34	ACUITE BBB Stable (Reaffirmed)
	Term Loan	Long Term	11.78	ACUITE BBB Stable (Reaffirmed)
	Term Loan	Long Term	12.87	ACUITE BBB Stable (Reaffirmed)
	Letter of Credit	Short Term	10.00	ACUITE A3+ (Reaffirmed)
	Term Loan	Long Term	0.01	ACUITE BBB Stable (Reaffirmed)
	Cash Credit	Long Term	30.00	ACUITE BBB Stable (Reaffirmed)
	Proposed Bank Facility	Long Term	6.75	ACUITE BBB Stable (Upgraded from ACUITE BBB- Stable)
	Term Loan	Long Term	4.64	ACUITE BBB Stable (Upgraded from ACUITE BBB- Stable)

25 Oct 2018	Term Loan	Long Term	15.55	ACUITE BBB Stable (Upgraded from ACUITE BBB- Stable)
	Post Shipment Credit	Short Term	3.00	ACUITE A3+ (Upgraded from ACUITE A3)
	Term Loan	Long Term	0.06	ACUITE BBB Stable (Upgraded from ACUITE BBB- Stable)
	Cash Credit	Long Term	30.00	ACUITE BBB Stable (Upgraded from ACUITE BBB- Stable)
	Proposed Bank Facility	Long Term	20.00	ACUITE BBB Stable (Upgraded from ACUITE BBB- Stable)
	Letter of Credit	Short Term	10.00	ACUITE A3+ (Upgraded from ACUITE A3)
31 Oct 2017	Cash Credit	Long Term	30.00	ACUITE BBB- Stable (Assigned)
	Term Loan	Long Term	16.82	ACUITE BBB- Stable (Assigned)
		Long		
	Term Loan	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

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
HDFC Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	45.00	ACUITE A- Stable Upgraded (from ACUITE BBB+)
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	15.00	ACUITE A- Stable Upgraded (from ACUITE BBB+)
HDFC Bank Ltd	Not Applicable	Term Loan	05-08-2021	7.75	31-08-2026	12.00	ACUITE A- Stable Upgraded (from ACUITE BBB+)
HDFC Bank Ltd	Not Applicable	Term Loan	05-08-2021	7.00	31-08-2026	18.00	ACUITE A- Stable Upgraded (from ACUITE BBB+)
State Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	5.09	ACUITE A- Upgraded & Withdrawn (from ACUITE BBB+)

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About Acuité Ratings & Research

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