

Press Release

SJLT Spinning Mills Private Limited

February 14, 2023

Rating Reaffirmed



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

Rating Rationale

Acuite has reaffirmed its long-term rating of '**ACUITE A-**' (read as **ACUITE A minus**) on Rs. 90.00 crore bank facilities of SJLT Spinning Mills Private Limited. The outlook is '**Stable**'.

Rationale for reaffirmation

The rating reaffirmation takes into consideration the extensive experience of the promoters and established market position of the group in the textile industry especially in the state of Tamil Nadu. The rating draws comfort from the strong financial risk profile marked by low gearing levels and adequate liquidity position supported by minimal reliance on bank limits. The rating also factors in the cost optimisation initiatives of the group by setting up of additional 10 MW of solar power panels thereby reducing the power cost and improving the operating profitability in the near to medium term. The rating is however constrained by moderate working capital operations and susceptibility of operating margins to volatility in raw material prices.

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.

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 ~90 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.

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

Augmentation in operating performance albeit moderation in revenue

The operating performance of the group recorded a strong Y-o-Y growth of 101 percent driven by healthy demand for cotton yarn coupled with availability of additional capacity. In August 2021, the group acquired Thirupur Suriya factory where the capacity of the group increased from 1,66,448 spindles to 2,27,328 spindles. The total operating income of the group stood at Rs. 608.39 crore in FY22 as against Rs. 302.88 crore in FY21. The operating performance of the group however remained subdued in H1FY23 on account of high cotton prices. The total operating income in H1FY23 stood at Rs. 216.01 crore.

Operating profit margins of the group saw a marginal decline of 60.74 bps and stood at 16.13 percent in FY22 as against 16.73 percent in FY21. The operating profit margins stood at 16.51 percent in H1FY23. The group already has 7.40 MW of solar panels and 8.90 MW of wind mills for its captive power consumption. In FY22, the group added additional 10 MW of ground mounted solar power panels. Such additions has helped to bring down the power cost of the group. Further, on account of prepayment of term loans and minimal reliance on bank limits, the finance cost of the group has reduced. Such savings in cost will help in improving the profitability of the company in the near to medium term. The PAT margins of the group stood at 9.67 percent in FY22 as against 8.20 percent in FY21.

Acuité believes that the business risk profile of the group will be supported by established track record of operations and healthy relations with customers and suppliers.

Above average financial risk profile

The financial risk profile of the group remains above average marked healthy network, low gearing and healthy debt protection metrics. The tangible net worth of the group stood at Rs. 248.45 crore as on March 31, 2022 as against Rs. 189.62 crore as on March 31, 2021. The total debt of the group stood at Rs. 59.60 crore as on March 31, 2022 as against Rs. 88.03 crore as on March 31, 2021. The total debt of the group includes Rs. 27.06 crore of long term loans, Rs. 24.66 crore of short term loans and 7.88 crore of unsecured loans. The group on account of healthy cash accruals has prepaid its long term loans and withdrawn the unsecured loans. The management of the group follows a conservative leverage policy which is reflected by its low gearing of 0.24 times as on March 31, 2022. The gearing (Debt/Equity) of the group improved from its peak gearing at 0.54 times as on March 31, 2020. The debt protection metrics of the company stood healthy marked by DSCR of 9.42 times in FY22 and ICR of 29.33 times in FY22.

Acuité believes that the financial risk profile of the group is likely to remain above average in the near to medium term on account of improvement in scale of operations and absence of any debt funded capital expenditure.

Weaknesses

Moderate working capital operations

The working capital operations of the group are moderate with GCA day of 94 days in FY22 as against 179 days in FY21. The GCA days are driven by inventory holding period and the improvement in GCA days are driven by improvement in the inventory holding period. The season for cotton is between the month of October to March and the group stocks up cotton in the last quarter of the financial year. The inventory days of the group improved at 41 days in FY22 as against 112 days in FY21. The debtor collection period of the group also improved marginally at 40 days in FY22 as against 45 days in FY21. The group's reliance on bank limits remains minimal reflected by average utilization of bank limits less than 10 percent for 7 months ended October 2022. The creditor days of the group stood at 30 days in FY22 as against 39 days in FY21.

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

Liquidity of the group is strong marked by sufficient net cash accruals as against the debt repayment obligations. Net cash accruals of the group stood at Rs. 71.88 crore as against repayment obligation of Rs. 4.06 crore in FY22. The group is expected to generate sufficient net cash accruals as against the repayment obligation in the near to medium term. The liquidity of the group is further supported by minimal bank limit utilization with average utilization of less than 10% for 7 months ended October, 2022. The group maintained unencumbered cash balance of Rs. 8.98 crore as on March 31, 2022.

Acuité believes that the liquidity of the group is likely to remain strong in the near to medium term on account of improvement in net cash accruals.

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.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	608.39	302.88
PAT	Rs. Cr.	58.82	24.84
PAT Margin	(%)	9.67	8.20
Total Debt/Tangible Net Worth	Times	0.24	0.46
PBDIT/Interest	Times	29.33	11.46

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

None

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

In order to inform the investors about complexity of instruments, Acuite has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in.

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
11 Apr 2022	Term Loan	Long Term	18.00	ACUITE A- Stable (Upgraded from ACUITE BBB+)
	Proposed Bank Facility	Long Term	15.00	ACUITE A- Stable (Upgraded from ACUITE BBB+)
	Term Loan	Long Term	12.00	ACUITE A- Stable (Upgraded from ACUITE BBB+)
	Term Loan	Long Term	5.09	ACUITE A- (Withdrawn)
	Cash Credit	Long Term	45.00	ACUITE A- Stable (Upgraded from ACUITE BBB+)
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	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)
	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)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
HDFC Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	45.00	ACUITE A- Stable Reaffirmed
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Simple	41.00	ACUITE A- Stable Reaffirmed
HDFC Bank Ltd	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	4.00	ACUITE A- Stable Reaffirmed

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About Acuité Ratings & Research

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