



Press Release
SJLT Spinning Mills Private Limited
May 14, 2024
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 of rating:

The rating reaffirmation reflects extensive experience of the SJLT group's management in the textile industry, subdued operating performance in FY2023 albeit improvement estimated in FY2024. The revenue of the group declined to Rs.361.82 Cr. in FY2023 from Rs.608.39 Cr. in FY2022 on account of subdued demand levels and lower price realisations. However, it is estimated to improve in the range of Rs.390-400Cr in FY2024 on back of improved demand levels and price realisations. Further EBITDA margin is also estimated to improve in FY2024 from FY2023 levels, which stood at 11.21 percent. The rating also draws comfort from the healthy financial risk profile and strong liquidity position of the SJLT group. However, these strengths are partially offset by its moderately intensive working capital operations and vulnerability of the group's operating margins to the fluctuations in raw materials 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.

Unsupported Rating

Not Applicable

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 of 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.

Subdued performance in FY23 due to industry headwinds; however, recovery is estimated in FY24.

The group's total revenue declined to Rs. 361.82 Cr. in FY2023 from Rs. 608.39 Cr. in FY2022. The decline in revenue is due to a steep fall in cotton candy rates from an all-time high of Rs. 1,15,000 per candy to ~Rs. 55,000 per candy in the span of the last 3 quarters of FY2023 coupled with lower demand levels leading to lower volumes and lower price realisations. The operating profit margin also declined to 11.21 percent in FY23 against 16.13 percent in FY22. Cotton candy rates stabilised during FY2024, which were in the range of Rs. 52,000 per candy to Rs. 57,000 per candy throughout the year. This, coupled with improved demand levels, has resulted in growth in revenue in FY2024, which is estimated to be in the range of Rs. 390-400Cr, while operating profit margin is estimated to improve in FY24 compared to previous year. Going forward, the company's revenue and operating profit margins are expected to improve due to improved realizations and savings from captive power.

Healthy financial risk profile:

The group's financial risk profile remained healthy despite subdued operating performance in FY23, primarily marked by healthy net worth, low gearing level and healthy debt protection metrics. The net worth of the group has improved to Rs.268.47 Cr. as of March 31, 2023, from Rs.248.45 Cr. as of March 31, 2022, due to the accretion of profits to reserves for FY2023. The gearing remained healthy at 0.28 times as of March 31, 2023 against 0.24 times as of March 31, 2022. Marginal deterioration in gearing is due to increase in total debt to Rs.75.44 Cr. in FY2023, which consists of long-term debt of Rs.4.05 Cr, unsecured loans of Rs.13.41 Cr. and short-term debt of Rs.57.97Cr. Total outside Liabilities/Tangible Net Worth (TOL/TNW) remained healthy at 0.54 times as of March 31, 2023 against 0.52 times as of March 31, 2022. Interest coverage ratio (ICR) and debt service coverage ratio (DSCR) stood comfortable at 14.31 times and 4.11 times respectively, as of March 31, 2023 against 29.33 times and 9.42 times respectively, as of March 31, 2022. Debt to EBITDA stood comfortable at 1.71 times as of March 31, 2023 although it deteriorated from 0.60 times as of March 31, 2022 due to a decline in absolute EBITDA. Going forward, gearing and debt protection metrics are expected to remain healthy on account of healthy net worth and no plans for major debt-funded capex

Weaknesses

Moderately intensive working capital operations:

Working capital operations of the group are moderately intensive, as evident from the gross current assets (GCA) of 188 days in FY2023 against 94 days in FY2022. The elongation in GCA days is due to the stretch in inventory days, which mostly consist of raw materials (cotton). The season for cotton is between the months of October and March, so the group stocks up cotton in the last quarter of the financial year, resulting in a higher inventory-holding period of 120 days in FY2023. Debtor days stood at 44 in FY2023, against 40 days in FY2022. The group's reliance on bank limits remained minimal, as reflected by an average utilisation of 20 percent in the past 12 months ending March 2024. The creditor days of the group stood at 45 in FY2023, against 30 days in FY2022. Acuité believes that the working capital cycle will continue to remain at similar levels over the medium term due to cyclical nature 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

- Improvement in scale of operations, while improving its profitability.
- Any further elongation in working capital cycle leading to deterioration in financial risk profile and liquidity position of the group.

Liquidity Position : Strong

Liquidity position of the group is strong as reflected from sufficient Net cash accruals (NCA) against the nominal debt repayment obligations. The group registered NCA of Rs.34.47 Cr. during FY2023, against debt repayment obligations of Rs.6.06 Cr. Besides, the group also has unencumbered cash and bank balances of Rs.3.49Cr, providing addition support to liquidity. Average utilization of the fund based working capital limits stood low at 20 percent for the past 12 months period ending March, 2024. Going forward, group is expected to generate cash accruals in the range of Rs.50-60 Cr. over the medium term, while repayment obligations are expected to be in the range of Rs.4.00-Rs.3.6 Cr. for the same period.

Acuite believes that the liquidity position of the group will remain strong on the back of healthy cash accruals generation and the buffer available from the moderately utilised working capital limits.

Outlook: Stable

Acuité believes that SJLT group 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 group'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 or significant decline in its scale of operations and profitability.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 23 (Actual)	FY 22 (Actual)
Operating Income	Rs. Cr.	361.82	608.39
PAT	Rs. Cr.	20.02	58.82
PAT Margin	(%)	5.53	9.67
Total Debt/Tangible Net Worth	Times	0.28	0.24
PBDIT/Interest	Times	14.31	29.33

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>
- Rating Process and Timeline: <https://www.acuite.in/view-rating-criteria-67.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
14 Feb 2023	Cash Credit	Long Term	45.00	ACUITE A- Stable (Reaffirmed)
	Term Loan	Long Term	4.00	ACUITE A- Stable (Reaffirmed)
	Proposed Long Term Bank Facility	Long Term	41.00	ACUITE A- Stable (Reaffirmed)
11 Apr 2022	Term Loan	Long Term	5.09	ACUITE A- (Upgraded & Withdrawn)
	Cash Credit	Long Term	45.00	ACUITE A- Stable (Upgraded from ACUITE BBB+)
	Term Loan	Long Term	18.00	ACUITE A- Stable (Upgraded from ACUITE BBB+)
	Proposed Long Term 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+ Stable)
21 Jan 2021	Letter of Credit	Short Term	10.00	ACUITE A2 (Upgraded & Withdrawn)
	Post Shipment Credit	Short Term	3.00	ACUITE A2 (Upgraded & Withdrawn)
	Cash Credit	Long Term	30.00	ACUITE BBB+ (Upgraded & Withdrawn)
	Term Loan	Long Term	11.78	ACUITE BBB+ (Upgraded & Withdrawn)
	Term Loan	Long Term	0.01	ACUITE BBB+ (Upgraded & Withdrawn)
	Cash Credit	Long Term	45.00	ACUITE BBB+ Stable (Upgraded from ACUITE BBB Stable)
	Proposed Long Term Bank Facility	Long Term	6.91	ACUITE BBB+ Stable (Upgraded from ACUITE BBB Stable)
	Term Loan	Long Term	5.09	ACUITE BBB+ Stable (Upgraded from ACUITE BBB Stable)
	Term Loan	Long Term	33.00	ACUITE BBB+ Stable (Assigned)

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 avl. / Not appl.	Cash Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	45.00	ACUITE A- Stable Reaffirmed
Not Applicable	Not avl. / Not appl.	Proposed Long Term Bank Facility	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	41.37	ACUITE A- Stable Reaffirmed
HDFC Bank Ltd	Not avl. / Not appl.	Term Loan	31 Mar 2024	Not avl. / Not appl.	01 Aug 2026	Simple	3.63	ACUITE A- Stable Reaffirmed

*Annexure 2 - List of Entities (applicable for Consolidation or Parent / Group / Govt. Support)

1. SJLT Textiles Private Limited
2. SJLT Spinning Mills Private Limited.

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About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI) for Bank Loan Ratings under BASEL-II norms in the year 2012. Acuité has assigned ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

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