

Press Release

SJLT Textiles Private Limited

31 October, 2017



Rating Assigned

Total Bank Facilities Rated*	Rs. 95.64 Cr.
Long Term Rating	SMERA BBB- / Outlook: Stable
Short Term Rating	SMERA A3

* Refer Annexure for details

Rating Rationale

SMERA has assigned long-term rating of '**SMERA BBB-**' (read as **SMERA triple B minus**) and short term rating of '**SMERA A3**' (read as **SMERA A three**) on the Rs.95.64 crore bank facilities of SJLT Textiles Private Limited. The outlook is '**Stable**'.

SJLT Textiles Private Limited (STPL), incorporated in 1994, is engaged in the manufacture of cotton yarn at Namakkal, Tamil Nadu. The company is led by Mr. Jagadeesan Veerappan, Managing Director and has total capacity of ~90000 spindles.

For arriving at the rating, SMERA has consolidated the business and financial risk profiles of STPL & SJLT Spinning Mills Private Limited (SMPL) (together referred to as the SJLT Group). SMPL is a group company engaged in a similar line of activity at Namakkal, Tamil Nadu. The consolidated approach is on account of a common management, similarities in the lines of business and significant operational synergies between the two companies. The promoters also have presence in logistics, construction, granites and power generation sectors.

Key Rating Drivers

Strengths

- Established presence in textiles, experienced management**

The group commenced operations in textiles in 1994 under the leadership of Mr V. Jagadeesan and Mr V. Selvadurai who possess experience of around four decades in the industry. The group has over the years established healthy relationships with customers and suppliers reflected by the fact that the group has high repeat orders from customers. Some of the key customers of the group include Poppys Knitwear Pvt Ltd, Kedia Brothers, Himatsingka Linens to name a few. The group specialises in 60s and 80s yarn.

- Healthy operating margins**

The SJLT Group registered healthy operating margins of 16.3 per cent in FY2017 (Provisional) compared to 10.5 per cent in FY2016 on the back of improved realisations in Q1FY2017. Exports comprised ~ 20 per cent of the total turnover. The SJLT Group manufactures cotton yarn of 60s to 80s which is a high margin segment. Besides, the group also benefits from its windmill initiatives that save power costs. The group's margins have been in the region of 13-14 per cent. The group is expected to maintain the same going forward in line with past trends. The group reported operating income of Rs. 314.3 crore in FY2017 (Provisional) up from Rs. 290.6 crore, in FY2014 at a CAGR of 2.6 per cent, largely stagnant due to capacities running at over 90 per cent utilization levels.

• Improvement in the financial risk profile

The group has comfortable financial risk profile marked by healthy operating margins, which stood at 16.34 percent in FY2017 (Provisional) as against 10.47 percent in the previous year. The net margins also improved to 7.00 per cent in FY2017 (Provisional) from 2.33 per cent in FY2016. The gearing stood at 1.50 times as on 31 March, 2017 as against 2.06 times as on 31 March, 2016. The Interest coverage stood at 4.66 times and NCA/TD at 0.25 times as on 31 March, 2017.

• Comfortable working capital utilisation levels

The working capital limits of STPL and SMPL stood at Rs. 45 crore and Rs. 30 crore respectively while the utilisation levels were 48.15 per cent and 48.17 per cent respectively. The levels for the group have been comfortable over the years which further helped the total debt levels and leverage ratios.

Weaknesses

• Margins susceptible to volatility in cotton prices

The margins remain susceptible to volatility in cotton prices. The group procures raw material primarily from the domestic market along with nominal imports of ~10 per cent for a few premium varieties. The prices of yarn also follow the cotton prices but with a lag of around three months. Overall, the management is quite comfortable with the current demand scenario and expects cotton prices to remain stable at the current levels.

• Intense competition in the textile industry

The group is exposed to intense competition from organised and unorganised players in the highly fragmented Indian textile industry. The competition is lower in the premium segment, which is ~80 per cent of the group's overall product portfolio. The competition in the lower count segment is largely on pricing owing to the presence of unorganised players.

Analytical Approach

SMERA has considered the consolidated business and financial risk profiles of SJLT Textiles Private Limited (STPL) and SJLT Spinning Mills Private Limited (SMPL) owing to common promoters, shared brand name and financial synergies within the group.

Outlook: Stable

SMERA believes that the outlook on the SJLT group will remain stable over the medium term. The outlook may be revised to 'Positive' in case the company registers significant increment in its revenue and profitability while improving its liquidity position. The outlook may be revised to 'Negative' in case of deterioration in its financial risk profile and stretched working capital cycle.

About the Rated Entity - Key Financials

For FY2017 (Provisional), the SJLT group reported operating income of Rs. 314.26 crore compared to Rs. 316.05 crore in the previous year. Further, the profit after tax (PAT) stood at Rs. 21.99 crore for FY2017 (Provisional) as against Rs. 7.36 crore for FY2016 in the previous year. The tangible networth stood at Rs. 86.14 crore as on 31 March, 2017 as against Rs. 64.16 crore in the previous year.

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

None

Any other information

None

Applicable Criteria

- Default Recognition-<https://www.smera.in/criteria-default.htm>
- Consolidation Of Companies-<https://www.smera.in/criteria-consolidation.htm>
- Manufacturing Entities-<https://www.smera.in/criteria-manufacturing.htm>
- Financial Ratios And Adjustments-<https://www.smera.in/criteria-fin-ratios.htm>

Note on complexity levels of the rated instrument

<https://www.smera.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Not Applicable

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
Term loans	Not Applicable	Not Applicable	Not Applicable	30.23	SMERA BBB- / Stable
Cash Credit	Not Applicable	Not Applicable	Not Applicable	25.00	SMERA BBB- / Stable
Term loans	Not Applicable	Not Applicable	Not Applicable	7.91	SMERA BBB- / Stable
Cash Credit	Not Applicable	Not Applicable	Not Applicable	20.00	SMERA BBB- / Stable
IBN	Not Applicable	Not Applicable	Not Applicable	2.50	SMERA A3
LC/BG	Not Applicable	Not Applicable	Not Applicable	10.00	SMERA A3

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ABOUT SMERA

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