Press Release

Shri Vasudeva Weaving Mills Private Limited

March 29, 2019

Rating Downgraded

Total Bank Facilities Rated*	Rs. 34.50 Cr.
Long Term Rating	ACUITE BB / Outlook: Stable (Downgraded from ACUITE BB+/Stable)
Short Term Rating	ACUITE A4+ (Reaffirmed)

** Refer Annexure for details*

Rating Rationale

Acuité has downgraded long-term rating to **'ACUITE BB' (read as ACUITE double B)** from **'ACUITE BB+' (read as ACUITE double B plus)** and reaffirmation of short term rating of **'ACUITE A4+' (read as ACUITE A four plus)** to the Rs. 34.50 crore bank facilities of Shri Vasudeva Weaving Mills Private Limited (SVPL). The outlook is **'Stable'**.

The downgrade in the rating reflects stretch in the liquidity marked by increase in debtor cycle, high bank limit utilisation and tightly matching accruals to the debt obligations; the rating is also constrained by below-average capital structure. However, the ratings continue to reflect the experience of the promoters in the industry and moderate revenue growth.

SVPL, incorporated in 2012, is a Coimbatore based company engaged in the weaving of fabrics with installed capacity of 96 lakh meters per annum. The company caters to clients in Andhra Pradesh, Tamil Nadu, Gujarat and Delhi. The company has a windmill of 3.75 mega-watt (MW) capacity used primarily for captive consumption.

Analytical Approach

Acuité has considered standalone financial and business risk profile of SVPL to arrive at this rating.

Key Rating Drivers

Strengths

- **Experienced management and long track record of operations**

  The promoters, Mr. EN Sivasamy and Mr. ES Ashok possess more than a decade experience in the textile industry. The company primarily manufactures fabric with yarn counts of 60's to 100's suited for suiting fabric and 30's to 120's for shirting fabric and others with an installed capacity of 96 lakh meters per annum. Higher counts and healthy relations with the customers and suppliers resulted in growth in revenues at a compound annual growth rate (CAGR) of about 29 percent from Rs.35.96 crore in FY2016 to Rs.60.07 crore in FY2018. The increase in revenue is attributed to increase in customer base and product diversification year-over-year. Further, SVPL manufactures organic fabrics and Kids wear against confirmed orders. Acuité believes that SVPL is expected to enjoy the benefit of proximity to the cotton growing area along with the promoters' experience and local presence in improvement of its business risk profile over the medium term.

Weaknesses

- **Modest scale of operations and volatile profitability**

  Though the revenues of the company grew at 29 percent CAGR from Rs.35.96 crore in FY2016 to Rs.60.07 crore, it remained modest in the textile industry. Further, the revenues in FY2019 are also expected to be at similar levels of FY2019 with revenues of about Rs.55.12 crore for 11MFY2019. Currently, the company is running at peak operating levels of about 95 percent constraining the revenue growth. Further, the volatile yarn prices and limited flexibility in passing on the prices lead to sharp decline in the profitability to 11.69 per cent in FY2018 against 15.77 per cent in FY2017 and 14.85 per cent in FY2016. Acuité believes that with no capex plans in place, increasing overhead costs and limited bargaining power, the operations continue to be at modest levels with volatile operating margins.

- **Working capital intensive operations**

Operations of the company are working capital intensive marked by high gross current assets (GCA) at 152 days in FY2018 as against 141 days in FY2017. This is on account stretch in debtors to 110 days in FY2018 as against 79 days in FY2017. Inventory has increased to 50 days in FY2018 as against 19 days in FY2017 due to GST impact. Further, for 11MFY2019, debtors stood at Rs.14.02 crore on the total billed revenues of Rs.55.12 crore which is around about three months of debtors cycle. This led to full utilisation of its working capital limits for the last six months through February 2019. Acuité believes that the operations are expected to be working capital intensive over the medium term.

- **Moderate financial risk profile**

Financial risk profile of the company is moderate marked by moderately high gearing, total outside liabilities to total net worth (TOL/TNW) though partly supported by moderate debt protection metrics. Gearing is moderately high at 2.27 times as on 31 March, 2018 as against 2.41 times as on 31 March, 2017. TOL/TNW is high at 3.14 times as on 31 March, 2018 as against 3.03 times as on 31 March, 2017. Net worth is modest at Rs.13.35 crore as on 31 March, 2018 as against Rs.12.69 crore as on 31 March, 2017 (Includes quasi equity of Rs.7.30 crore). Of the total debt of Rs.30.28 crore as on 31 March, 2018, long term debt constitutes Rs.18.51 crore and short term debt of Rs.11.76 crore. Debt protection metrics of interest coverage ratio and net cash accruals to total debt are moderate at 2.47 times and 0.13 times respectively in FY2018. The company reported cash accruals of Rs.3.96 crore for FY2018. Further, repayment obligations are expected to be in the range of Rs.3.40-4.50 crore against tightly matching annual cash accruals of about Rs.4.30-5.50 crore. Ability of the company to improve the financial risk profile with adequate cash accruals will be the key rating sensitivity factors over the near to medium term.

- **Intense market competition and exposure to fluctuations in raw material prices**

The company operates in a highly competitive and fragmented textile industry with several organised and unorganised players which may affect profitability.

Liquidity Position:

SVPL's liquidity is stretched marked by tightly matching net cash accruals to its maturing debt obligations, fully utilised bank lines and working capital intensive operations. SVPL generated cash accruals of Rs.3.96 crore for FY2018. Its cash accruals are expected in the range of Rs.4.30-5.50 crore, while its maturing debt obligations are Rs.3.50-4.50 crore during 2019-21. The SVPL's operations are relatively working capital intensive as marked by Gross Current Assets (GCA) of 152 days in FY 2018. This led to high reliance on working capital borrowings with utilisation at about 97 percent during the last 6-month period ended February 2019. The current ratio of the SVPL is weak at 0.95 times as on March 31, 2018. Acuité believes that with modest scale of operations, working capital intensive operations and volatile profitability, the liquidity is expected to be at stretched levels over the near term.

Outlook: Stable

Acuité believes that SVPL will maintain 'Stable' outlook over the medium term on account of experienced management. The outlook may be revised to 'Positive' in case the company registers substantial increase in its profitability margins supported by healthy revenue growth and improvement in its capital structure. Conversely, the outlook may be revised to 'Negative' in case of sharp decline in the company's profitability margins or stretch in its working capital management or any larger-than-expected debt-funded capex leading to deterioration of the financial risk profile.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	60.07	45.34	35.96
EBITDA	Rs. Cr.	7.02	7.15	5.34
PAT	Rs. Cr.	0.69	0.68	0.16
EBITDA Margin	(%)	11.69	15.77	14.85
PAT Margin	(%)	1.15	1.50	0.44
ROCE	(%)	8.36	9.58	13.49
Total Debt/Tangible Net Worth	Times	2.27	2.64	2.82

PBDIT/Interest	Times	2.47	2.07	2.24
Total Debt/PBDIT	Times	4.29	4.67	5.77
Gross Current Assets (Days)	Days	152	141	162

Status of non-cooperation with previous CRA (if applicable)
None

Any other information
None

Applicable Criteria

- Default Recognition - https://www.acuite.in/criteria-default.htm
- Manufacturing Entities- https://www.acuite.in/view-rating-criteria-4.htm
- Financial Ratios And Adjustments - https://www.acuite.in/view-rating-criteria-20.htm

Note on complexity levels of the rated instrument
https://www.acuite.in/criteria-complexity-levels.htm

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs.Cr.)	Ratings/Outlook
15-Feb-2019	Cash Credit	Long Term	INR 12	ACUITE BB+ (Issuer not co-operating)
	Term Loan	Long Term	INR 14.47	ACUITE BB+ (Issuer not co-operating)
	Term Loan	Long Term	INR 3.22	ACUITE BB+ (Issuer not co-operating)
	Term Loan	Long Term	INR 1.81	ACUITE BB+ (Issuer not co-operating)
	Letter of Credit	Short Term	INR 3	ACUITE A4+ (Issuer not co-operating)
06-Dec-2017	Cash Credit	Long Term	INR 12	ACUITE BB+ / Stable (Assigned)
	Term Loan	Long Term	INR 14.47	ACUITE BB+ / Stable (Assigned)
	Term Loan	Long Term	INR 3.22	ACUITE BB+ / Stable (Assigned)
	Term Loan	Long Term	INR 1.81	ACUITE BB+ / Stable (Assigned)
	Letter of Credit	Short Term	INR 3	ACUITE A4+ (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	12.00	ACUITE BB / Stable (Downgraded)
Term loans	Not Applicable	Not Applicable	Not Applicable	14.47	ACUITE BB / Stable (Downgraded)
Term loans	Not Applicable	Not Applicable	Not Applicable	3.22	ACUITE BB / Stable (Downgraded)

Term loans	Not Applicable	Not Applicable	Not Applicable	1.81	ACUITE BB / Stable (Downgraded)
Letter of credit	Not Applicable	Not Applicable	Not Applicable	3.00	ACUITE A4+ (Reaffirmed)

Contacts

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