

Press Release

Senthilkumar Textile Mills Private Limited (STMPL)

09 January, 2018



Rating Assigned

| | |
|-------------------------------------|---------------------------------|
| Total Bank Facilities Rated* | Rs. 35.00 Cr. |
| Long Term Rating | SMERA BBB-/Stable (Assigned) |
| 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. 35.00 crore bank facilities of Senthilkumar Textile Mills Private Limited (STMPL). The outlook is '**Stable**'.

STMPL was incorporated in 2004, under the directorship of Mr. Ramachandran Senthilkumar, R. Vaitapuri and R. Ramachandran to take over the existing business of six proprietorship concerns namely Kumar Yarn Stores, Senthil Traders, VRS Textiles, Rajeshwari Yarn Traders, Kumarel Yarn Traders and Arvind Yarn Traders engaged in the trading of cotton yarn. The company started manufacturing yarns with a capacity of 12,000 spindles and further added another 13,000 spindles in 2015 (currently total of 25,000 spindles). The yarns are of 40s to 100s counts used for manufacturing garments and home textiles. The company also outsources manufacturing of fabric.

Key rating drivers

Strengths

Experienced management: Mr. R Senthilkumar, Promoter Director has experience of over two decades in the textile industry. STMPL was formed by taking over the existing business of six proprietorship concerns run by Mr. R Senthilkumar's family.

SMERA believes that the extensive experience of the management in textiles is likely to benefit the company in the medium term.

Moderate financial risk profile: The company has moderate networth of Rs.19.97 crore as on 31 March, 2017 as against Rs.17.91 crore in the previous year. The gearing stood moderately high at 1.54 times as on 31 March, 2017 which improved from 1.65 times in the previous year on account of repayment of debt. The total debt of Rs.30.78 crore includes long term debt of Rs.9.90 crore, short term borrowing of Rs.18.31 crore and trade deposits from directors of Rs.2.57 crore. SMERA believes that gearing of the company is likely to improve on account of repayment of debt and no major debt funded capex plan in the near to medium term.

The company has moderate coverage indicators with Interest Coverage Ratio of 2.23 times and Debt Service Coverage Ratio of 1.34 times in FY2017.

Weaknesses

Margins susceptible to fluctuations in raw material prices: The company has fluctuating operating margins mainly on account of fluctuating prices of cotton. The operating margin stood at 7.99 per cent in FY2017 as against 7.77 per cent in FY2016 and 8.20 per cent in FY2015.

Working capital intensive operations: The gross current asset stood high at 134 days in FY2017 compared to 115 days in FY2016. The GCA days are high mainly on account of inventory holding of 71 days and debtors of 61 days. The company's inventory levels vary between 50-75 days depending on the prices of the raw material.

SMERA believes that efficient working capital management will be crucial to the company in maintaining a stable credit profile.

About the Rated Entity – Key Financials

| | Unit | FY17 (Actual) | FY16 (Actual) | FY15 (Actual) |
|-------------------------------|---------|---------------|---------------|---------------|
| Operating Income | Rs. Cr. | 98.78 | 106.79 | 101.85 |
| EBITDA | Rs. Cr. | 7.90 | 8.29 | 8.36 |
| PAT | Rs. Cr. | 0.96 | 0.94 | 0.74 |
| EBITDA Margin | (%) | 7.99 | 7.77 | 8.20 |
| PAT Margin | (%) | 0.97 | 0.88 | 0.73 |
| ROCE | (%) | 9.85 | 10.84 | 21.51 |
| Total Debt/Tangible Net Worth | Times | 2.21 | 2.38 | 2.63 |
| PBDIT/Interest | Times | 2.30 | 2.19 | 2.09 |
| Total Debt/PBDIT | Times | 3.90 | 3.57 | 3.62 |
| Gross Current Assets (Days) | Days | 134 | 115 | 115 |

Any other information: Not Applicable

Outlook – Stable

SMERA believes the outlook on STMPL's rated facilities will remain stable over the medium term on account of its experienced management. The outlook may be revised to 'Positive' in case the company displays strong growth in revenues and profit margins while registering a comfortable capital structure. Conversely, the outlook may be revised to 'Negative' if the company records lower-than-expected revenues or profitability or the deterioration in working capital management or if the company undertakes larger than expected debt funded capex leading to weakening of the financial risk profile.

Applicable Criteria

- Default Recognition - <https://www.smera.in/criteria-default.htm>
- Trading Entities - <https://www.smera.in/criteria-trading.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>
Status of non-cooperation with previous CRA (if applicable): None

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 |
|--------------------------------|------------------|-------------|---------------|-------------------------------|-------------------|
| Cash Credit | NA | NA | NA | 18.00 | SMERA BBB-/Stable |
| Term Loan I | NA | NA | NA | 2.26 | SMERA BBB-/Stable |
| Term Loan II | NA | NA | NA | 1.19 | SMERA BBB-/Stable |
| Term Loan III | NA | NA | NA | 4.65 | SMERA BBB-/Stable |
| Letter of Credit (WC)* | NA | NA | NA | 2.00 | SMERA A3 |
| Project related Bank Guarantee | NA | NA | NA | 1.19 | SMERA A3 |
| Proposed Long Term Limit | NA | NA | NA | 5.71 | SMERA BBB-/Stable |

* One-way interchangeability from Letter of Credit (Working Capital) to Cash Credit (Hyp) limit to the extent of Rs.2.00 crore.

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ABOUT SMERA

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