

Press Release

Senthilkumar Textile Mills Private Limited

March 06, 2019



Rating Reaffirmed

Total Bank Facilities Rated*	Rs. 42.64 Cr.
Long Term Rating	ACUITE BBB- / Outlook: Stable (Enhanced from Rs.35.00 Cr)
Short Term Rating	ACUITE A3

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed long-term rating of '**ACUITE BBB-**' (**read as ACUITE triple B minus**) and short term rating of '**ACUITE A3**' (**read as ACUITE A three**) to the Rs.35.00 crore bank facilities and assigned long-term rating of '**ACUITE BBB-**' (**read as ACUITE triple B minus**) to the Rs.7.64 crore bank facilities of Senthilkumar Textile Mills Private Limited (STPL). The outlook is '**Stable**'.

The reaffirmation of the rating reflects sustenance of the revenues and profitability in line with the expectations and past trend; the rating also factors in moderate liquidity and financial risk profile of STPL besides established track record and extensive experience of its promoters in the textile industry. The ratings are constrained by moderate revenues, and working capital intensive operations.

Senthilkumar Textile Mills Private Limited (STML) was incorporated as a private limited company in 2004. The company was promoted by Mr V Ramachandran, Chairman, and his son Mr R Senthilkumar (Managing Director) who looks after day to day business activities of the company. STML's spinning unit is located in the Erode district of Tamil Nadu, and operates with spindle capacity of 25,000 manufacturing cotton yarn of counts Ne 40s-100s. The company mainly caters to the domestic market.

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of STML to arrive at the rating

Key Rating Drivers

Strengths

• **Established Track record of operations and experienced management**

STML is promoted by Mr V Ramachandran; Chairman of the company and he has more than four decades of experience in textile industry. His son Mr R Senthilkumar (Managing Director) has over two decades of experience in the textile industry and he is taking care of day to day business activities of the company. The unit is located in textile belt of Erode, Coimbatore and Tirupur, the area has numerous garments players providing demand for the product. 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 offtake. STML reported revenues of Rs.99.97 Crs for FY2018 as against Rs.98.78 Crs in FY2017; further it has booked revenues of Rs.84 crore in 9M of FY2019. Acuité believes that promoter's extensive experience in textile industry would aid the business risk profile of the company over the medium term.

• **Moderate financial risk profile**

STPL has Moderate financial risk profile marked by moderate capital structure and comfortable debt protection measures. STPL's capital structure is moderate marked by moderate gearing and total outside liabilities to total net worth (TOL/TNW) of 1.55 times and 2.23 times as on March 31, 2018 as against 1.54 times and 2.21 times as on March 31, 2017. Its net worth is modest at around Rs.20.76 crore as on March 31, 2018 as compared to Rs.19.97 crore as on March 31, 2017. The net worth has improved due to accretion to reserves. Its debt protection metrics are moderate with interest coverage of 2.54 times and NCA/TD of 0.14 times for FY2018. Acuité believes that STPL's financial risk profile is expected to be at similar levels over the medium term.

Weaknesses

- **Moderate working capital operations**

The company has moderate working capital operations as evident from its Gross Current Assets (GCA) of 152 days as on March 31, 2018 as against 134 days as on March 31, 2017. As cotton is a seasonal crop, its availability and quality is generally an issue after the cotton season. Due to its commitment to delivering quality products, STPL follows a strategy of procurement during the cotton season and maintains cotton inventory of around 90 days, wherein it avails credit from its suppliers. STPL also has receivables of 60 days. Moderate working capital management has led to moderate utilisation of its working capital limits at about 60 percent over the past six months ended January 2019. Cotton is available seasonally; however, manufacturing and sales operations are carried out throughout the year and hence, the operations continue to be working capital intensive over the medium term.

- **Stagnant and moderate scale of operations and susceptibility to volatility in input prices**

The revenue of the STPL is Stagnant at Rs.100 Cr. over the past two years and its revenue growth is limited to capacity constraints and current utilization levels stands at about 95 per cent, which would provide nominal growth of 1 to 5 per cent over the medium term. The company is not planning for any significant capital expenditure over the next two years till the repayment of current term loans. The yarn industry is fragmented and dominated by numerous small, unorganised players and a few large players. With operating income of Rs.99.97 crore in FY2018, scale remains moderate. The key raw material, i.e. cotton yarn, is a seasonal commodity. The input costs of spinners usually align themselves to variations in the cotton yarn realisations with a significant time lag rendering margins vulnerable to volatility in input costs. Further, Cotton availability is highly dependent on monsoon and limited product diversification which limits the bargaining power of yarn players. The profit margins are also exposed to fluctuations in raw cotton-linked prices of cotton yarn, which is depend upon various factors such as seasonality, climatic conditions, international demand and supply situation and export policy.

Liquidity Position:

Position STPL has comfortable liquidity marked by moderate cash accruals to its maturing debt obligations and moderate utilisation of its bank lines. The cash accruals of Rs.4.25 to 4.40 crore during the last three years through 2017-18, while its maturing debt obligations were in the range of Rs.2.50 crore over the same period. The cash accruals of the STPL are estimated to remain around Rs.4.25-5.00 crore during 2019-21 while its repayment obligations are estimated to be around Rs. 2.00-2.50 Crore, leaving adequate cushion for its working capital requirements. The bank lines are moderately utilised at around 60 percent during the last 6 months period ended January 2019. STPL maintains unencumbered cash and bank balances of Rs.2.50 crore as on March 31, 2018. The debt service coverage ratio (DSCR) and current ratios stands at 1.33 times and 1.26 times as on March 31, 2018. STPL is doing regular capex of Rs.2-3 crore over the medium for modernisation which is likely to be funded by its internal accruals. Acuité believes that the liquidity of STPL is likely to remain comfortable over the medium term on account of moderate cash accrual to its repayments over the medium term.

Outlook: Stable

Acuité believes that STPL will maintain a 'Stable' outlook over the medium term from its promoter's industry experience. The outlook may be revised to 'Positive' in case of significant growth in its revenues while sustaining its profitability. Conversely, the outlook may be revised to 'Negative' in case of any stretch in its working capital operations or any significant debt-funded capex leading to deterioration of its financial risk profile and liquidity.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	99.97	98.78	106.79
EBITDA	Rs. Cr.	8.17	7.90	8.29
PAT	Rs. Cr.	0.80	0.96	0.94
EBITDA Margin	(%)	8.17	7.99	7.77
PAT Margin	(%)	0.80	0.97	0.88
ROCE	(%)	9.27	9.85	10.84
Total Debt/Tangible Net Worth	Times	1.55	1.54	1.65
PBDIT/Interest	Times	2.54	2.30	2.19

Total Debt/PBDIT	Times	3.75	3.77	3.42
Gross Current Assets (Days)	Days	152	134	115

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
09-Jan-2018	Cash Credit	Long Term	18.00	ACUITE BBB- / Stable (Assigned)
	Term Loan I	Long Term	2.26	ACUITE BBB- / Stable (Assigned)
	Term Loan II	Long Term	1.19	ACUITE BBB- / Stable (Assigned)
	Term Loan III	Short Term	4.65	ACUITE BBB- / Stable (Assigned)
	Letter of Credit (WC)	Short Term	2.00	ACUITE A3 (Assigned)
	Project related Bank Guarantee	Short Term	1.19	ACUITE A3 (Assigned)
	Proposed Long Term Limit	Long Term	5.71	ACUITE BBB- / Stable (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	18.00	ACUITE BBB-/Stable (Reaffirmed)
Term Loan I	Not Applicable	Not Applicable	Not Applicable	1.17	ACUITE BBB-/Stable (Reaffirmed)
Term Loan II	Not Applicable	Not Applicable	Not Applicable	0.72	ACUITE BBB-/Stable (Reaffirmed)
Term Loan III	Not Applicable	Not Applicable	Not Applicable	3.56	ACUITE BBB-/Stable (Reaffirmed)
Term Loan IV	Not Applicable	Not Applicable	Not Applicable	6.00	ACUITE BBB-/Stable (Assigned)
Working Capital Demand Loan	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE BBB-/Stable (Assigned)
Project related Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	1.19	ACUITE A3 (Reaffirmed)

Letter of Credit (WC)	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE A3 (Reaffirmed)
Proposed Long Term Limit	Not Applicable	Not Applicable	Not Applicable	5.71	ACUITE BBB- (Withdrawn)

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About Acuité Ratings & Research:

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