

## Press Release

### Senthilkumar Textile Mills Private Limited

June 09, 2020

### Rating Upgrade



<b>Total Bank Facilities Rated*</b>	Rs.42.64 Cr.
<b>Long Term Rating</b>	ACUITE BBB-/Stable (Upgrade)
<b>Short Term Rating</b>	ACUITE A3 (Upgrade)

\* Refer Annexure for details

### Rating Rationale

Acuite has upgraded long-term rating to '**ACUITE BBB-**' (read as **ACUITE triple B minus**) from '**ACUITE BB+**' (read as **ACUITE double B plus**) and short term rating to '**ACUITE A3**' (read as **ACUITE A three**) from '**ACUITE A4+**' (read as **ACUITE A four plus**), on the Rs.42.64 crore bank facilities of SENTHILKUMAR TEXTILE MILLS PRIVATE LIMITED (STMPL). The outlook is '**Stable**'.

The rating upgrade is majorly on account of sustained revenues growth and profitability as initial envisaged. The rating also factors in adequate liquidity and moderate financial risk profile of STMPL. Going ahead, Acuite expects the financial risk profile of the company to remain moderate. However, the rating is constrained by moderate revenues and working capital intensive operations.

Senthilkumar Textile Mills Private Limited (STMPL) is a Erode based company was incorporated in the year 2004. The company is engaged in manufacturing and trading of cotton yarn. The company is promoted by Mr. V. Ramachandran, Chairman, and his son Mr. R. Senthilkumar (Managing Director) who also looks after the day to day business activities. STMPL's spinning unit is located in the Erode district of Tamil Nadu, operates with a spindle capacity of 25,440 with a count range of 40s-100s. The company mainly caters to the domestic market.

### Analytical Approach

Acuite has considered standalone view of business and financial risk profile of STMPL to arrive at the rating.

### Key Rating Drivers

#### Strengths

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

STMPL is engaged in manufacturing and trading of cotton yarn. The company is promoted by Mr. V Ramachandran (Chairman) who has more than four decades of experience in textile industry. Mr. V Ramachandran is well supported by second generation, Mr. R Senthilkumar (Managing Director) who has over two decades of experience in the textile industry and also looks after the day to day business activities of the company. The manufacturing unit is located in textile belt of Erode. The promoter's experience in textile industry has helped the company build healthy relationship with its suppliers and customers. Further, STMPL has achieved revenues of Rs.109.77 Cr in FY2019 as against Rs.99.97 Cr in FY2018; further the company has booked revenues of Rs.88.65 crore in FY2020.

Acuite 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**

The financial risk profile of the company is moderate marked by moderate net worth, gearing and debt protection indicators. The tangible net worth of the company stood at Rs.22.26 crore as on 31 March, 2019 as against Rs.20.76 crore in the FY2018, the increase is due to accretion of profits to reserves. The gearing (debt-equity) and Total outside liabilities to Tangible Net Worth (TOL/TNW) are moderate at 1.31 and 1.75 times respectively as on 31 March, 2019 vis-à-vis 1.55 and 2.33 times respectively as on 31 March, 2018. The total debt outstanding of Rs.29.06 crore as on 31 March, 2019, long term debt constitutes Rs.5.86 crore,

unsecured loans constitutes of Rs.0.91 crore and short term debt of Rs.19.58 crore. The interest coverage ratio and net cash accruals to total debt are moderate at 2.47 times and 0.16 times respectively for FY2019 as against 2.54 times and 0.14 times respectively for FY2018. Interest coverage ratio has decreased on account of increase in interest cost, NCA/TD improved to 0.16 in FY2019 from 0.14 in FY2018 due to decrease in total debt on account of decrease in short term debt when compared to previous year. STMPL generated cash accruals of Rs.4.79 crores in FY2019 as against Rs.4.38 crore in FY2018.

Acuite believes that the financial risk profile of the company is expected to remain moderate over the near to medium term on account of moderate cash accruals and absence of any significant debt-funded capex.

## **Weaknesses**

### **• Moderate working capital operations**

The company has moderate working capital operations as evident from its Gross Current Assets (GCA) of 123 days as on March 31, 2019 as against 152 days as on March 31, 2018. As cotton is a seasonal crop, its availability and quality are generally an issue after the cotton season. Cotton is generally procured during the season beginning from October to March to sustain the raw material requirements for the next 4-5 months until the next season starts. So, the company maintains inventory of around 90 days. It usually gets 10-15 days of credit from its suppliers. The company gives credit period of around 45-60 days to its customers. Debtor days improved and stood at 58 days for FY2019 as against 65 days for FY2018. STMPL's working capital limits over the last six months was utilized at an average of 73 percent as on May 2020.

Acuite expects the operations of the company to remain moderately intensive on account of the high inventory levels maintained by the company.

### **• Susceptibility to fluctuation in raw material prices**

The yarn industry is fragmented and dominated by numerous small, unorganized players and a few large players. 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.

## **Rating Sensitivity factors:**

- Significant Improvement in revenues
- Any deterioration in working capital

## **Material Covenants: None**

## **Liquidity Position: Adequate**

STMPL has adequate liquidity marked by net cash accruals as compared to its maturing debt obligations. The company generated cash accruals of Rs.4.10-4.79 crore during the last three years through 2017-19, while the maturing debt obligations were in the range of Rs.2.47-2.88 crore over the same period. The cash accruals are estimated to be around Rs.3.80-5.10 crore during 2020-22, while its repayment obligations in the range of Rs.2.71 crore to Rs.0.61 crore. The company maintains cash and bank balances of Rs.2.50 crore as on March 31, 2019. The current ratio stood moderate at 1.26 times as on March 31, 2019. Gross Current Assets (GCA) stood moderate at 123 days for FY2019. However, the working capital limits of the company remains utilized at 73 percent.

Acuite believes that the liquidity of the company is likely to remain adequate over the medium term.

### Outlook: Stable

Acuite believes that STMPL will maintain a 'Stable' outlook over the medium term backed by its experienced management and adequate revenue visibility. The outlook may be revised to 'Positive' in case of significant improvement in its revenues, while maintaining the profitability margins. Conversely, the outlook may be revised to 'Negative' in case of any deterioration in working capital, leading to deterioration in financial risk profile and liquidity position.

### About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	109.77	99.97
PAT	Rs. Cr.	1.49	0.80
PAT Margin	(%)	1.36	0.80
Total Debt/Tangible NetWorth	Times	1.31	1.55
PBDIT/Interest	Times	2.47	2.54

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

### Any other information

None

### Applicable Criteria

- Default Recognition – <https://www.acuite.in/view-rating-criteria-17.htm>
- Manufacturing Entities- <https://www.acuite.in/view-rating-criteria-4.htm>
- Application of 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
14-May-2020	Cash Credit	Long Term	18.00	ACUITE BB+ (Downgraded) Issuer not co-operating*
	Term Loan I	Long Term	1.17	ACUITE BB+ (Downgraded) Issuer not co-operating*
	Term Loan II	Long Term	0.72	ACUITE BB+ (Downgraded) Issuer not co-operating*
	Term Loan III	Long Term	3.56	ACUITE BB+ (Downgraded) Issuer not co-operating*
	Term Loan IV	Long Term	6.00	ACUITE BB+ (Downgraded) Issuer not co-operating*
	Working Capital Demand Loan	Long Term	10.00	ACUITE BB+ (Downgraded) Issuer not co-operating*
	Project related Bank Guarantee	Short Term	1.19	ACUITE A4+ (Downgraded) Issuer not co-operating*
	Letter of Credit	Short Term	2.00	ACUITE A4+ (Downgraded) Issuer not co-operating*

06-Mar-19	Cash Credit	Long Term	18.00	ACUITE BBB- / Stable (Reaffirmed)
	Term Loan I	Long Term	1.17	ACUITE BBB- / Stable (Reaffirmed)
	Term Loan II	Long Term	0.72	ACUITE BBB- / Stable (Reaffirmed)
	Term Loan III	Long Term	3.56	ACUITE BBB- / Stable (Reaffirmed)
	Term Loan IV	Long Term	6.00	ACUITE BBB- / Stable (Assigned)
	Working Capital Demand Loan	Long Term	10.00	ACUITE BBB- / Stable (Assigned)
	Project related Bank Guarantee	Short Term	1.19	ACUITE A3 (Reaffirmed)
	Letter of Credit	Short Term	2.00	ACUITE A3 (Reaffirmed)
	Proposed Long Term Limit	Long Term	5.71	ACUITE BBB- (Withdrawn)
09-Jan-18	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	Long Term	4.65	ACUITE BBB- / Stable (Assigned)
	Letter of Credit	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**

<b>Name of the Facilities</b>	<b>Date of Issuance</b>	<b>Coupon Rate</b>	<b>Maturity Date</b>	<b>Size of the Issue (Rs. Crore)</b>	<b>Ratings/Outlook</b>
Cash Credit	Not Applicable	Not Applicable	Not Applicable	18.00	ACUITE BBB-/Stable (Upgraded)
Term Loan I	Not Applicable	Not Applicable	Not Applicable	1.17	ACUITE BBB- (Withdrawn)
Term Loan II	Not Applicable	Not Applicable	Not Applicable	0.72	ACUITE BBB- (Withdrawn)
Term Loan III	Not Available	Not Applicable	Dec-2021	1.78	ACUITE BBB-/Stable (Upgraded)
Term Loan IV	Not Available	Not Applicable	Apr-2025	3.75	ACUITE BBB-/Stable (Upgraded)
Working Capital Demand Loan	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE BBB-/Stable (Upgraded)
Proposed	Not Applicable	Not Applicable	Not Applicable	4.03	ACUITE BBB-/Stable (Assigned)
Project related Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	1.19	ACUITE A3 (Upgraded)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE A3 (Upgraded)

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### About Acuité Ratings & Research:

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