

Press Release

**Shri Mookambiga Spinning Mills
Private Limited**

July 15, 2019



Rating Downgraded and Assigned

Total Bank Facilities Rated*	Rs. 31.50 Cr. (Enhanced from Rs.28.00 Cr.)
Long Term Rating	ACUITE B+ / Outlook: Stable (Downgraded from ACUITE BB-/Stable)

* Refer Annexure for details

Rating Rationale

Acuité has downgraded long-term rating to '**ACUITE B+**' (**read as ACUITE B plus**) from '**ACUITE BB-**' (**read as ACUITE double B minus**) on the Rs. 27.10 crore bank facilities of SHRI MOOKAMBIGA SPINNING MILLS PRIVATE LIMITED (SMPL). The outlook is '**Stable**'.

Further, Acuité has assigned a long-term of '**ACUITE B+**' (**read as ACUITE B plus**) to the Rs.4.40 crore bank facility of SMPL. The outlook is '**Stable**'.

The rating revision is on account of decline in profitability margins coupled with working capital operations and average financial risk profile. The company's operations are working capital intensive marked by high Gross Current Asset (GCA) of 179 days in FY2018 as compared to 157 days in FY2017. This is mainly on account of inventory holding which stood at 115 days in FY2018 and 99 days in FY2017. The collection period stood at 59 days in FY2018 compared to 52 days in FY2017. The working capital facility is fully utilised for last six months ending April 2019.

Incorporated in 1982, SMPL is a Tamil Nadu based company promoted by Mr. Mr. E. N. Othisamy and family. The company is engaged in manufacturing of cotton yarn from 24s to 60s counts. The company also trades in cotton fabrics. SMPL has currently installed 32000 spindles with its manufacturing facility located at Dindigul (Tamil Nadu). The company also has its own captive power generating wind mill with capacity of 6.65MW.

Analytical Approach

Acuité has considered the standalone business and financial profiles of SMPL to arrive at this rating.

Key Rating Drivers

Strengths

- **Experienced management**

SMPL was promoted by Mr. E. N. Othisamy in 1982. The company benefits from around four decades of experience of the Founder. Further, the day-to-day activities of the company are managed by Managing Director, Mr. E.O. Sathiesh Kumar who possess almost 15 years of experience in the textile industry. Acuité believes that SMPL will benefit from experienced management which will help the company to maintain long standing relations with its customers and suppliers.

Weaknesses

- **Average financial risk profile**

The financial risk profile of the company is average marked by tangible net worth of Rs.9.25 crore as on 31 March, 2018 as against Rs.8.80 crore in the previous year. The gearing stood high at 4.00 times as on 31 March, 2018 as against 3.74 times in the previous year. The total debt of Rs.40.58 crore includes term loan from bank of Rs.9.04 crore, working capital borrowings of Rs.22.87 crore and unsecured loan of Rs.8.68 crore. Interest Coverage Ratio (ICR) stood at 1.66 times in FY2018 as against 1.58 times in FY2017. The total outside liabilities to tangible net worth (TOL/TNW) stood at 5.65 times as on 31 March, 2018 as against 6.11 times in the previous year. The net cash accruals to total debt (NCA/TD) stood at 0.08 times in FY2018. Going forward, Acuité believes that the company's ability to improve its net worth along with debt protection metrics will remain key sensitivity.

- **Modest scale of operations and declining profitability margins**

The SMPL's revenue grew at a CAGR of ~4.1 percent over the last four years through 2016-19 (Provisional). The company has modest scale of operations marked by operating income of Rs.66.34 crore in FY2018 as against Rs.71.84 crore in FY2017 and 59.22 crore in FY2016. Further, the company has booked revenue of Rs.66.79 crore for FY2019 (Provisional).

Further, SMPL's operating margins continued to decline at 8.14 percent in FY2018 as against 8.90 percent in FY2017 and 10.19 percent in FY2016. Further, the company reported Profit after Tax (PAT) margin of 0.67 percent in FY2018 against 0.55 percent in FY2017 and 0.79 percent in FY2016. The fluctuations in profitability margins are on account of fluctuations in prices of major raw material.

Acuité believes that the growth in revenue and sustenance of its profitability margins are expected to support the overall growth of the company.

Liquidity position:

The company has adequate liquidity marked by net cash accruals as compared to its maturing debt obligations. SMPL generated cash accruals of Rs.2.7-2.9 crore during the last three years through 2016-18, while the maturing debt obligations were in the range of Rs.1.3-1.5 crore over the same period. The cash accruals are expected to remain around Rs.2.5-3.0 crore during 2019-21, while its repayment obligations are estimated to be around Rs.1.5-1.7 crore. SMPL operates in a working capital-intensive nature of operations marked by gross current asset (GCA) days of 179 in FY2018. Further, the cash credit limit of the company is fully utilised for last twelve months ended April, 2019. SMPL maintains cash and bank balances of Rs.0.17 crore as on March 31, 2018. The current ratio stood low at 0.80 times as on March 31, 2018. Acuité believes that the liquidity of the company is likely to remain the same over medium term on account no major capex over the medium term.

Outlook: Stable

Acuité believes that SMPL's outlook will remain 'Stable' over the medium term from its experienced management. The outlook may be revised to 'Positive' in case of higher than expected growth in its revenues while improving its profitability and improvement in financial risk profile. The outlook may be revised to 'Negative' in case of steep decline in revenues and profitability or stretch in its working capital management leading to deterioration of its financial risk profile and liquidity position.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	66.34	71.84	59.22
EBITDA	Rs. Cr.	5.40	6.39	6.03
PAT	Rs. Cr.	0.44	0.39	0.47
EBITDA Margin	(%)	8.14	8.90	10.19
PAT Margin	(%)	0.67	0.55	0.79
ROCE	(%)	8.52	9.30	8.89
Total Debt/Tangible Net Worth	Times	3.74	3.87	4.03
PBDIT/Interest	Times	1.66	1.58	1.68
Total Debt/PBDIT	Times	5.72	5.18	5.51
Gross Current Assets (Days)	Days	179	157	171

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

Not Applicable

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>

- 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
17-Apr-2019	Cash Credit	Long Term	23.00	ACUITE BB- (Indicative)
	Term Loan	Long Term	2.00	ACUITE BB- (Indicative)
	Term Loan	Long Term	2.86	ACUITE BB- (Indicative)
	Proposed Term Loan	Long Term	0.14	ACUITE BB- (Indicative)
09-Feb-2018	Cash Credit	Long Term	23.00	ACUITE BB- / Stable (Assigned)
	Term Loan	Long Term	2.00	ACUITE BB- / Stable (Assigned)
	Term Loan	Long Term	2.86	ACUITE BB- / Stable (Assigned)
	Proposed Term Loan	Long Term	0.14	ACUITE BB- / 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	23.00	ACUITE B+ / Stable (Downgraded from ACUITE BB-/Stable)
Term Loan	Not Applicable	Not Applicable	Not Applicable	1.90	ACUITE B+ / Stable (Downgraded from ACUITE BB-/Stable)
Term Loan	Not Applicable	Not Applicable	Not Applicable	2.20	ACUITE B+ / Stable (Downgraded from ACUITE BB-/Stable)
Term Loan	Not Applicable	Not Applicable	Not Applicable	4.40	ACUITE B+ / Stable (Assigned)

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About Acuité Ratings & Research:

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