

Press Release

Sri Selvam Textiles

March 29, 2019



Rating Reaffirmed and Assigned

Total Bank Facilities Rated*	Rs. 13.89 Cr.
Long Term Rating	ACUITE BB- / Outlook: Stable

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed the long-term rating of '**ACUITE BB-**' (**read as ACUITE double B minus**) to the Rs. 4.80 crore bank facilities of SRI SELVAM TEXTILES (SST). The outlook is '**Stable**'.

Further, Acuité has assigned the long term rating of '**ACUITE BB-**' (**read as ACUITE double B minus**) to the Rs. 9.09 crore bank facilities of Sri Selvam Textiles (SST). The outlook is '**Stable**'.

Coimbatore (Tamil Nadu) based, SST was established as a proprietorship firm in 1983 by Mr. N. Selvam. The firm is engaged in manufacturing of cotton yarn. The firm has an installed capacity of 2300 tons per annum.

Analytical Approach

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

Key Rating Drivers

Strengths

- **Established track record of operations and experienced management**

SST was established in 1983, thus the firm has an operational track record of over three decades in the cotton industry. Mr. N. Selvam (Proprietor) has an experience of over three decades in the same line of business. The long track record of operations and experience of management has helped the firm develop healthy relationships with its customers and suppliers. Acuité believes that SST will sustain its existing business profile on the back of established track record of operations and experienced management.

- **Moderate working capital operations**

The firm manages its working capital operations efficiently with Gross Current Asset (GCA) of 85 days for FY2018 as against 145 days for FY2017. This is mainly due inventory level of 49 days for FY2018 as against 87 days for FY2017. The debtors stood at 25 days for FY2018 as against 35 days for FY2017. However, the bank limit utilisation stood high at 98.55 percent for the past six months ending February 2019.

- **Moderate scale of operations and profitability**

In spite of being in business for more than three decades, the scale of operations remained moderate with operating income of Rs.31.68 crore in FY2018 as against Rs.22.68 crore in FY2017. However, the operating income for the period April 2018 to February 2019 is Rs.27.77 crore (Provisional). The operating margins declined to 9.59 percent in FY2018 from 13.94 percent in FY2017. This is mainly due to increased raw material cost and employee cost in FY2018. Net profit stood at 2.88 percent in FY2018 as against 0.51 percent in FY2017.

Weaknesses

- **Average financial risk profile**

The financial risk profile of the firm stood average marked by average net worth, debt protection metrics and coverage indicators. The net worth of SST stood at Rs.6.96 crore as on 31 March, 2018 as against Rs.6.55 crore as on 31 March, 2017. The gearing (debt-equity) stood at 1.94 times as on 31 March, 2018 as against 2.27 times as on 31 March, 2017. The total debt of Rs.13.51 crore as on 31 March, 2018 mainly comprises of Rs.9.75 crore of long term debt, Rs.3.53 crore of working capital

borrowings and Rs.0.23 crore of unsecured loan. The coverage indicators are average marked by Interest Coverage Ratio (ICR) at 2.31 times for FY2018 as against 2.42 times for FY2017. NCA/TD (Net Cash Accruals to Total Debt) stood at 0.13 times in FY2018 and in FY2017. Debt to EBITDA stood at 4.37 times in FY2018 as against 4.63 times in FY2017. Acuité believes that the financial risk profile of the firm is expected to remain average backed by average net cash accruals.

- **Highly competitive and fragmented industry**

Sri Selvam Textiles operates in a highly competitive and fragmented cotton yarn industry with the presence of several players in the domestic market.

Liquidity Position

The firm has moderate liquidity marked by moderate net cash accruals to its maturing debt obligations. The firm generated cash accruals of Rs. 1.75 crore for FY2018 while its maturing debt obligations were Rs. 1.32 crore for the same period. The cash accruals of the firm are estimated to remain in the range of ~ Rs. 2.00 crore to Rs. 3.00 crore during 2019-21 while its repayment obligation are estimated to be~ Rs. 1.30 crore to Rs. 1.70 crore. The firm's working capital operations are efficiently managed marked by gross current asset (GCA) days of 85 days for FY2018. The firm maintains unencumbered cash and bank balances of Rs. 0.13 crore as on 31 March 2018. The current ratio stands at 1.67 times as on 31 March 2018. Acuité believes that the liquidity of the firm is likely to remain moderate over the medium term on account of moderate cash accrual against its maturing debt repayments.

Outlook: Stable

Acuité believes that SST will maintain a 'Stable' outlook over the medium term on the back of its experienced management. The outlook maybe revised to 'Positive' in case the firm registers higher-than-expected growth in its revenues and profitability while maintaining its liquidity position. Conversely, the outlook may be revised to 'Negative' in case the firm registers lower-than- expected growth in revenues and profitability or in case of deterioration in the firm's financial risk profile or significant elongation in working capital cycle.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	31.68	22.68	26.68
EBITDA	Rs. Cr.	3.04	3.16	1.29
PAT	Rs. Cr.	0.91	0.12	0.26
EBITDA Margin (%)	(%)	9.59	13.94	4.82
PAT Margin (%)	(%)	2.87	0.51	0.96
ROCE (%)	(%)	10.73	7.34	8.36
Total Debt/Tangible Net Worth	Times	1.94	2.27	1.45
PBDIT/Interest	Times	2.31	2.42	1.67
Total Debt/PBDIT	Times	4.37	4.63	5.39
Gross Current Assets (Days)	Days	85	145	128

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

Not applicable

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
27-Jun-2018	Term Loan	Long Term	4.03	ACUITE BB- / Stable (Assigned)
	Term Loan	Long Term	0.94	ACUITE BB- / Stable (Assigned)
	Term Loan	Long Term	0.74	ACUITE BB- / Stable (Assigned)
	Term Loan	Long Term	0.31	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
Term loans	Not Applicable	Not Applicable	Not Applicable	3.33	ACUITE BB- / Stable (Reaffirmed)
Term loans	Not Applicable	Not Applicable	Not Applicable	0.73	ACUITE BB- / Stable (Reaffirmed)
Term loans	Not Applicable	Not Applicable	Not Applicable	0.57	ACUITE BB- / Stable (Reaffirmed)
Term loans	Not Applicable	Not Applicable	Not Applicable	0.17	ACUITE BB- / Stable (Reaffirmed)
Term loans	Not Applicable	Not Applicable	Not Applicable	1.20	ACUITE BB- / Stable (Assigned)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	3.00	ACUITE BB- / Stable (Assigned)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	3.50	ACUITE BB- / Stable (Assigned)
Term loans	Not Applicable	Not Applicable	Not Applicable	1.30	ACUITE BB- / Stable (Assigned)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	0.09	ACUITE BB- / Stable (Assigned)

Contacts

Analytical	Rating Desk
Aditya Gupta Head - Corporate and Infrastructure Sector Ratings Tel: 022-49294041 aditya.gupta@acuite.in	Varsha Bist Manager - Rating Desk Tel: 022-67141160 rating.desk@acuite.in
Priyal Jain Analyst - Rating Operations Tel: 022-49294065 priyal.jain@acuiteratings.in	

About Acuité Ratings & Research:

Acuité Ratings & Research Limited (Erstwhile SMERA Ratings Limited) is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 6,000 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Mumbai.

Disclaimer: An Acuité rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. Acuité ratings are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, Acuité, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. Acuité is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind arising from the use of its ratings. Acuité ratings are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website (www.acuite.in) for the latest information on any instrument rated by Acuité.