

Press Release

Sri Amman Sizing and Weaving Mills

January 20, 2021



Rating Reaffirmed

Total Bank Facilities Rated*	Rs.31.20 Cr.
Long Term Rating	ACUITE B+ / Outlook: Stable (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed its long term rating of '**ACUITE B+**' (**read as ACUITE B plus**) on the Rs.31.20 crore bank facilities of Sri Amman Sizing and Weaving Mills. The outlook is '**Stable**'.

About the company

Established in 2016, Sri Amman Sizing and Weaving Mills (SASWM) is a partnership firm based out of Coimbatore (Tamil Nadu) engaged in sizing and manufacturing, and trading of grey cloth. The firm has installed capacity of 56 looms and one sizing beam with average weaving capacity of 22400 meters of grey cloth per day with ~95 percent of utilization. The operations started in April 2017 and is managed by S.N. Nithyanandan, S.N. Swaminathan, A. Kalisamy, P. Gokul, M. Suchitra, K. Manojkumar.

Analytical Approach

For arriving at this rating, Acuité has taken a standalone view of the business and financial risk profile of Sri Amman Sizing and Weaving Mills.

Key Rating Drivers

Strengths

- **Experienced Management**

Mr. S. N. Nithyanandan, the promoter of the firm has over 15 years of experience in the textile industry. Previously, he worked as General Manager in Spinning Mills. Acuité believes that SASWM will sustain its existing business profile on the back of its experienced management.

- **Uptrend in Operating Income**

Operating income of the firm stood at Rs.123.18 crore in FY2020, Rs.71.91 crore in FY2019 and Rs.35.48 crore in FY2018. However, operating margin reduced to 4.90 percent in FY2020 from 10.84 percent in FY2019.

Weaknesses

- **Average financial risk profile**

The financial risk profile of the firm is average marked by low net worth, average debt protection metrics, and high gearing. The net worth of the firm improved to Rs. 8.53 crore as on 31 March, 2020 from Rs.6.10 crore as on 31 March, 2019, this is on account of accretion to reserves and infusion of capital by the partners to the tune of Rs.1.72 crore.

The gearing level (debt-equity) stood high at 3.52 times as on 31 March, 2020 as against 5.48 times as on 31 March, 2019. The total debt of Rs.29.99 crore outstanding as on 31 March, 2020 comprises Rs.17.30 crore as a term loan and Rs.12.69 crore as a working capital limit from the bank. Debt protection metrics remained average marked by interest coverage ratio (ICR) and debt service coverage ratio (DSCR) of 2.26 times and 1.25 times, respectively in FY2020. NCA/TD (Net Cash Accruals to Total Debt) ratio stood at 0.11 times in FY2020 and 0.13 times in FY2019. Debt/EBITDA stood at 4.95 times in FY2020.

Acuité believes that the financial risk profile of the firm is expected to remain average on account of high long term borrowings and moderate profitability.

• Working Capital intensive nature of Operations

Operations of the firm are working capital intensive marked by Gross Current Asset (GCA) of 127 days in FY2020 as compared to 140 days in FY2019. This is on account of debtors' collection period of 64 days in FY2020 as against 65 days in FY2019 and inventory holding period of 29 days in FY2020 as against 47 days in FY2019. Current ratio of the firm stood at 1.27 times as on 31 March, 2020 (Provisional).

Acuité believes that the working capital operations of GC will continue to remain intensive on account of high debtors' collection period.

Liquidity Profile: Adequate

Firm has adequate liquidity marked by moderate net cash accruals to its maturing debt obligations. Firm generated cash accruals of Rs.3.17 crore in FY2020 against debt obligation of Rs.1.99 crore for the same period. The cash accruals of the firm are estimated to remain in the range of Rs.4.00 crore – Rs.7.00 crore during 2021-23, while its repayment obligations are estimated to remain in the range of Rs. 0.40-Rs. 4.50 crore for the same period. Firm's operations are working capital intensive as marked by gross current asset (GCA) days of 127 days in FY2020 (Provisional). The firm maintains unencumbered cash and bank balances of Rs.0.15 crore as on March 31, 2020. The current ratio of the firm stands at 1.27 times as on March 31, 2020 (Provisional).

Going forward, Acuite expects the liquidity position of the firm to remain adequate on account of adequate net cash accruals against its debt obligations in near to medium term.

Rating Sensitivities

- Lower than expected operating performance
- Significant decline in profitability margins
- Any deterioration in working capital cycle and liquidity of the firm

Outlook: Stable

Acuité believes that SASWM will maintain 'Stable' outlook over the medium term on back of experienced management. The outlook may be revised to 'Positive' in case the firm registers higher-than-expected growth in revenues while improving profitability along with improved financial risk profile. 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 company's financial risk profile or significant elongation in the working capital cycle.

About the Rated Entity - Key Financials

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	123.18	71.91
PAT	Rs. Cr.	0.68	0.37
PAT Margin	(%)	0.55	0.51
Total Debt/Tangible Net Worth	Times	3.52	5.48
PBDIT/Interest	Times	2.26	2.29

Status of non-cooperation with previous CRA:

Not Applicable

Any other information

Not Applicable

Any Material Covenants

Not Applicable

Applicable Criteria

- Trading Entities- <https://www.acuite.in/view-rating-criteria-61.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-59.htm>
- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Application of Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument
<https://www.acuite.in/view-rating-criteria-55.htm>
Rating History (Up to last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr)	Ratings/Outlook
27-Nov-2019	Cash Credit	Long Term	11.00	ACUITE B+/Stable (Reaffirmed)
	Term Loan	Long Term	2.00	ACUITE B+/Stable (Reaffirmed)
	Term Loan	Long Term	12.50	ACUITE B+/Stable (Reaffirmed)
	Term Loan	Long Term	2.00	ACUITE B+/Stable (Reaffirmed)
	Term Loan	Long Term	3.70	ACUITE B+/Stable (Reaffirmed)
03-Sep-2018	Cash Credit	Long Term	11.00	ACUITE B+/Stable (Assigned)
	Term Loan	Long Term	2.00	ACUITE B+/Stable (Assigned)
	Term Loan	Long Term	12.50	ACUITE B+/Stable (Assigned)
	Term Loan	Long Term	2.00	ACUITE B+/Stable (Assigned)
	Term Loan	Long Term	3.70	ACUITE B+/Stable (Assigned)

***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	Not Applicable	Not Applicable	Not Applicable	11.00	ACUITE B+/Stable (Reaffirmed)
Term Loan	Jun-2016	10.00%	Dec-2025	2.00	ACUITE B+/Stable (Reaffirmed)
Term Loan	Jan-2017	10.00%	June-2027	12.50	ACUITE B+/Stable (Reaffirmed)
Term Loan	Jan-2017	10.00%	Nov-2027	2.00	ACUITE B+/Stable (Reaffirmed)
Term Loan	Oct-2017	10.00%	Dec-2026	3.70	ACUITE B+/Stable (Reaffirmed)

Contacts

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About Acuité Ratings & Research:

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