

Press Release
Sri Amman Textiles

August 18, 2020



Rating Upgraded, Assigned & Withdrawn

| | |
|-------------------------------------|------------------------------------------------------------------|
| Total Bank Facilities Rated* | Rs.32.50 Cr. (Enhanced from Rs.11.00 Cr) |
| Long Term Rating | ACUITE BB+/ Outlook: Stable (Upgraded from ACUITE BB-/Stable) |

* Refer Annexure for details

Rating Rationale

Acuité has upgraded the long term rating to '**ACUITE BB+**' (**read as ACUITE double B plus**) from '**ACUITE BB-**' (**read as ACUITE double B minus**) on the Rs.16.00 crore bank facilities and has assigned its long term rating of '**ACUITE BB+**' (**read as ACUITE double B plus**) on the Rs.16.50 crore bank facilities of Sri Amman Textiles (SAT). The outlook is '**Stable**'.

The rating upgrade is on account of improvement in business operations and in profitability matrix. The revenues have improved to Rs.59.27 crores in FY2019 from Rs.37.88 crores in FY2018. The revenues further improved to Rs.115.56 crores in FY2020 (Provisional). Further, the rating is also supported by an experienced management and long track record of operations in the textile Industry. The rating is, however constrained on account of modest financial risk profile and working capital intensive nature of operations.

Established in 2013, Sri Amman Textiles (SAT) is a Coimbatore based partnership firm engaged in manufacturing of fabrics with an annual installed capacity of 144.5 lakh meters per annum. The manufacturing facility is located in Annur, Coimbatore. The firm currently has around 66 air-jet looms and is operating at an average utilisation of around 95 percent. Mr. A. Kalisamy, Mr. S.N. Swaminathan, Mr. S.N. Nithyanandhan, Mr. P. Gokul, Mrs. M.Suchitra and K. Gunasundarai are the partners of the firm.

Analytical Approach

Acuité has considered the standalone business and financial risk profile of SAT to arrive at this rating.

Key Rating Drivers

Strengths

• Established track record of operations and experienced management

SAT is promoted by Mr. A. Kalisamy along with five more partners. The promoter Mr. A. Kalisamy has experience of more than two decades in the textile industry along with poultry farming and real estate. The firm has been able to maintain long term relationship with its customers since its inception.

Acuité believes that SAT will continue to benefit from its experienced management.

• Improvement in performance of operations throughout the years

Revenue from operations of the firm has witnessed an increase of 52 percent CAGR in FY2017-2020 (provisional) period. The revenues have increased to Rs.115.56 crore in FY2020 (provisional) from Rs.59.27 crore in FY2019 and Rs.37.88 crore in FY2018. The increase in revenue from operations was majorly on account of increase in production capacities of the firm and higher demand in both domestic and export markets. Further, in FY2020, the firm started sizing operations for their own manufacturing of fabrics and also generated revenues by doing sizing operations for local manufacturers. The firm currently started exporting to Sri Lanka apart from South Korea and is expected to boost its export operations in the coming years.

Acuité believes that the ability of the firm to increase the scale of operations would be the key rating sensitivity factor over the medium term.

• Moderate financial risk profile

The financial risk profile of SAT is moderate, marked by a moderate increase in tangible net worth to Rs.13.80 crore as on 31 March, 2020 (provisional) as compared to Rs.9.79 crore in FY2019.

The total debt of Rs.32.19 crore outstanding as on 31 March, 2020 (provisional) consists of long term secured loans of Rs.17.13 crore, unsecured loans from relatives of Rs.0.01 crore and working capital borrowings from the bank of Rs.15.06 crore. The gearing level of the firm deteriorated to 2.33 times as on 31 March, 2020 (provisional) as compared to 1.77 times as on 31 March, 2019 on account of increasing in borrowings due to installation of new machineries in their manufacturing facilities to increase the production capacities and starting of new sizing operations. Interest Coverage Ratio however improved to 5.44 times in FY2020 (provisional) as against 2.29 times in FY2019. The net cash accruals have increased to Rs.6.94 crore in FY2020 (provisional) as compared to Rs.1.08 crore in FY2019 on account of an increase in operating profit. The NCA/TD ratio also improved to 0.22 times in FY2020 (provisional) as compared to 0.06 times in FY2019.

Acuité believes that the financial risk profile of SAT will remain moderate over the medium term in the absence of any major debt-funded capex plans.

Weaknesses

- **Moderate working capital operations**

The working capital operations of the firm remained moderate marked by moderate GCA days of 109 days in FY2020 (provisional) compared to 103 days in FY2019. The inventory and debtors days of the firm stood at 27 days and 68 days in FY2020 (provisional) respectively. Subsequently, there was a reduction in payables period which stood at 28 days in FY2020 (provisional) as compared to 41 in FY2019 and also the firm gets 30-45 days of credit period from suppliers.

Acuité believes the ability of the firm to manage its working capital cycle will be a key rating sensitivity.

- **Highly competitive industry and profitability susceptible to fluctuations in input cost**

The firm operates in a highly competitive and fragmented textile industry characterised by a large number of unorganised players along with the fluctuation in raw material prices affecting the profitability margins of the company. Acuité believes that the highly fragmented and competitive industry along with variation in raw material prices will remain a key concern for the company going ahead.

Liquidity position: Adequate

The firm has an adequate liquidity position marked by healthy net cash accruals against its maturing debt obligations. The firm had NCA of Rs.6.94 crore as against the maturing debt obligation of Rs.1.20 crores in FY2020 (provisional). The NCA/TD has increased to 0.22 times in FY2020 (provisional) compared to 0.06 times in FY2019. The cash accruals of SAT are estimated to remain around Rs.5.87 - 7.96 crore during 2021-23 while its repayment obligation is estimated to be around Rs.2.00 – 2.50 crore during the same period. The firm maintains unencumbered cash and bank balances of Rs.1.60 crore as on March 31, 2020 (prov.). The current ratio stands average at 1.41 times as on March 31, 2020 (prov.). Acuité believes that the liquidity of the firm is likely to remain adequate over the medium term on account of moderate cash accruals with moderate repayments over the medium term.

Rating Sensitivities

- Improvement in profitability and scale of operations backed by healthy demand of fabrics
- Any deterioration in the working capital management will have a negative bias on the rating

Material Covenants

None

Outlook: Stable

Acuité believes that SAT will maintain a stable outlook in the medium term on the back of the extensive experience of the promoter in the business. The outlook may be revised to 'Positive' in case of a significant improvement in revenue and profitability while effectively managing its working capital cycle. Conversely, the outlook may be revised to 'Negative' in case of deterioration in the liquidity or financial risk profile on account of large debt-funded capex plan.

About the Rated Entity - Key Financials

| | Unit | FY20 (provisional) | FY19 (Actual) |
|-------------------------------|---------|--------------------|---------------|
| Operating Income | Rs. Cr. | 115.56 | 59.27 |
| PAT | Rs. Cr. | 1.17 | 0.11 |
| PAT Margin | (%) | 1.02 | 0.19 |
| Total Debt/Tangible Net Worth | Times | 2.33 | 1.77 |
| PBDIT/Interest | Times | 5.44 | 2.29 |

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

None

Any other information

None

Applicable Criteria

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

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Upto last three years)

| Date | Name of Instrument / Facilities | Term | Amount (Rs. Cr.) | Ratings/Outlook |
|-------------|---------------------------------|-----------|------------------|------------------------------|
| 29-Oct-2019 | Term Loan | Long Term | 1.71 | ACUITE BB- (Indicative) |
| | Cash Credit | Long Term | 8.00 | ACUITE BB- (Indicative) |
| | Proposed Bank Facility | Long Term | 1.29 | ACUITE BB- (Indicative) |
| 03-Sep-2018 | Term Loan | Long Term | 1.71 | ACUITE BB-/Stable (Assigned) |
| | Cash Credit | Long Term | 8.00 | ACUITE BB-/Stable (Assigned) |
| | Proposed Bank Facility | Long Term | 1.29 | 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. Crore) | Ratings/Outlook |
|---------------------------|------------------|----------------|----------------|-------------------------------|----------------------------------------------|
| Cash Credit | Not Applicable | Not Applicable | Not Applicable | 15.00 | ACUITE BB+/Stable (Upgraded from BB-/Stable) |
| Term Loan | Not Available | Not Applicable | Not Available | 1.71 | ACUITE BB+ (Withdrawn) |
| Term Loan | Dec, 2018 | Not Applicable | Dec, 2025 | 15.00 | ACUITE BB+/Stable (Assigned) |
| Working Capital Term Loan | Not Available | Not Applicable | Not Available | 1.50 | ACUITE BB+/Stable (Assigned) |
| Proposed Bank Facility | Not Applicable | Not Applicable | Not Applicable | 1.00 | ACUITE BB+/Stable (Upgraded from BB-/Stable) |

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About Acuité Ratings & Research:

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