Press Release

Sri Amman Textiles

September 06, 2021

Rating Reaffirmed & Assigned

Total Bank Facilities Rated*	Rs.35.00 Cr. (Enhanced from Rs.32.50 Cr)
Long Term Rating	ACUITE BB+ / Outlook: Stable (Reaffirmed & Assigned)

** Refer Annexure for details*

Rating Rationale

Acuité has reaffirmed its long-term rating of **'ACUITE BB+' (read as ACUITE double B plus)** to the Rs. 31.50 Cr and assigned its long-term rating of **'ACUITE BB+' (read as ACUITE double B plus)** to the Rs. 3.50 Cr bank facilities of Sri Amman Textiles (SAT). The outlook remains **'Stable'**.

The rating reaffirmation takes cognizance of the expected improvement in its operating performance and stability in operating margins, promoters' extensive experience in the textile industry, and its established relationship with its customers, leading to repeat orders. The rating albeit is constrained by its working capital intensive operations and susceptibility of margins to volatility in raw material prices and high competition.

About the Firm:

Established in 2013, Sri Amman Textiles (SAT) is a Coimbatore based partnership firm engaged in manufacturing of grey fabrics. The manufacturing facility is located in Annur, Coimbatore. The firm currently has around 42 air-jet looms and is operating at an average utilisation of around 95 percent. Mr. S N Nithyanandhan, Mr. S N Swaminathan, Mr. P Gokul, Mr. A Kalichamy, Mrs. M Suchittra and Mrs. K.Gunasundariare are the partners of the firm.

Analytical Approach

Acuité has taken a standalone view of the business and financial risk profile of SAT to arrive at the rating.

Key Rating Drivers

Strengths

- **Experience of partners and established track record of operations**
  All the partners of SAT have presence in the textile industry for nearly two decades. This has helped in building healthy relationships with its suppliers and customers to ensure a steady raw material supply and repeat business. The firm has grown at a Compound annual growth rate (CAGR) of about 36 percent for over four years through FY2021. The firm's revenue has remained moderate at about Rs.115 Cr over the last two years through FY2021. Acuité believes that partners have established presence in the textile industry will support the SAT' business profile over the medium term.

- **Above-Average financial risk profile**
  SAT's financial risk profile is above-average, marked by moderate networth, highly leveraged capital structure and moderate debt protection metrics. Its net worth is moderate at around Rs. 10.52 Cr as on March 31, 2021 (Provisional) as compared to Rs. 10.05 Cr as on March 31, 2020. SAT's capital structure is highly leveraged marked by high gearing and total outside liabilities to total net worth (TOL/TNW) of 3.44 times and 4.30 times as on March 31, 2021 (Provisional) as against 3.33 times and 4.99 times as on March 31, 2020. SAT's debt protection metrics are moderate marked by interest coverage of 2.70 times and NCA/TD of 0.10 times for FY2021 (Provisional) as against 4.79 times and 0.19 time, respectively, for FY2020. Acuité believes that in absence of any major debt-funded capital expenditure; the financial risk profile is expected to remain at similar levels over the medium term.

Weaknesses

- **Working capital intensive nature of operations**
  SAT's operations are working capital intensive in nature as reflected by its gross current asset (GCA) days of around 103-109 days during last 3 years through FY2021 (Provisional). The firm maintains an inventory of about 25 to 44 days and gives credit period of 39-73 days to its customers during last 3 years through FY2020. Its creditor's days stood at 31-56 days during last 3 years through FY2021 (Provisional). Moderate working capital management and moderate accruals lead to moderate utilisation of its working capital limits at about 94 percent over the past six months ended June 2021. As the raw materials are seasonally available; however, manufacturing and sales operations are carried out throughout the year leading to working capital intensive operations throughout the period. Acuité believes that the working capital cycle will continue to look intensive over the medium term on account of business cycle of cotton industry.

- **Susceptibility of operating margins to volatility in raw material prices**
  The firm procures the major raw material, grey cotton yarns, from the domestic market. Its profitability remains vulnerable to any adverse raw material price fluctuations. The Operating margin is declined to 4.49 percent in FY2021 (Provisional) from 6.68 percent in FY2020. The Operating margins of cotton spinners are susceptible to changes in cotton prices, which are highly volatile and commoditised product. Any abrupt change in cotton prices due to supply-demand scenario, carry-over stocks in the overseas market, and government regulations of changes in minimum support price (MSP) can lead to distortion in market prices and affect the profitability of players across the cotton value chain, including spinners.

Rating sensitivity

- Scaling up of operations, while achieving sustained improvement in operating margins.
- Stretch in working capital cycle leading to increase in working capital borrowing and weakening of financial risk profile and liquidity.

Liquidity Position: Adequate

SAT's liquidity is adequate marked by adequate cash accruals to its debt obligations. The firm had NCA of Rs.3.48 Cr as against the maturing debt obligation of Rs.2.25 Cr in FY2021 (provisional). The cash accruals of SAT are estimated to remain around Rs.4-6 Cr during 2022-24 while its repayment obligation is estimated to be around Rs. 2.50-3.00 Cr during the same period. The firm maintained unencumbered cash and bank balances of Rs.0.18 Cr as on March 31, 2021 (provisional). The current ratio stood average at 1.31 times as on March 31, 2021 (provisional). 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.

Outlook: Stable

Acuité believes that SAT will continue to benefit over the medium term due to its experienced management and established relation with its suppliers and customers. The outlook may be revised to 'Positive', in case of continued traction in revenues and sustainable profitability given the limited capacity available with improvement in working capital management. Conversely, the outlook may be revised to 'Negative' in case RSMPL registers lower-than-expected revenues and profitability or any significant stretch in its working capital management or larger-than-expected debt-funded capital expenditure or any significant withdrawal of capital leading to deterioration of its financial risk profile and liquidity.

About the Rated Entity - Key Financials

	Unit	FY21 (Provisional)	FY20 (Actual)
Operating Income	Rs. Cr.	115.26	115.75
PAT	Rs. Cr.	0.74	0.13
PAT Margin	(%)	0.65	0.11
Total Debt/Tangible Net Worth	Times	3.44	3.30
PBDIT/Interest	Times	2.70	4.79

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

None

Any other information

None

Material Covenants

None

Applicable Criteria

- Financial Ratios And Adjustments -https://www.acuite.in/view-rating-criteria-53.htm
- Default Recognition: https://www.acuite.in/view-rating-criteria-52.htm
- Manufacturing Entities - https://www.acuite.in/view-rating-criteria-59.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
18-Aug-2020	Cash Credit	Long Term	15.00	ACUITE BB+/Stable (Upgraded from BB-/Stable)
	Term Loans	Long Term	1.71	ACUITE BB+ Withdrawn
	Term Loan	Long Term	15.00	ACUITE BB+/Stable (Assigned)
	Working Capital Term Loan	Long Term	1.50	ACUITE BB+/Stable (Assigned)
	Proposed Bank Facility	Long Term	1.00	ACUITE BB+/Stable (Upgraded from BB-/Stable)
29-Oct-2019	Cash Credit	Long Term	8.00	ACUITE BB-Indicative
	Term Loan	Long Term	1.71	ACUITE BB-Indicative
	Proposed Bank Facility	Long Term	1.29	ACUITE BB-Indicative
03-Sept-2018	Cash Credit	Long Term	8.00	ACUITE BB-/Stable (Assigned)
	Term Loan	Long Term	1.71	ACUITE BB-/Stable (Assigned)
	Proposed Bank Facility	Long Term	1.29	ACUITE BB-/Stable (Assigned)

*Annexure – Details of instruments rated

Lender Name	Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Canara Bank	Cash Credit	Not Applicable	Not Applicable	Not Applicable	15.00	ACUITE BB+/Stable (Reaffirmed)
Canara Bank	Term Loans	03-12-2018	Not Available	31-03-2027	15.00	ACUITE BB+/Stable (Reaffirmed)
Canara Bank	Working Capital Demand Loan	Not Applicable	Not Available	Not Applicable	1.50	ACUITE BB+/Stable (Reaffirmed)
Canara Bank	Working Capital Term Loan (GECL)	Not Applicable	Not Available	Not Applicable	3.50	ACUITE BB+/Stable (Assigned)

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About Acuité Ratings & Research:
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