

Press Release

Selvaraja Mills Private Limited

September 19, 2018

Rating Assigned



Total Bank Facilities Rated*	Rs. 9.93 crore
Long Term Rating	ACUITE BB/ Stable

* Refer Annexure for details

Rating Rationale

Acuité has assigned the long term rating at '**ACUITE BB**' (read as **ACUITE double B**) to the Rs.9.93 crore bank facilities of Selvaraja Mills Private Limited (SMPL). The outlook is '**Stable**'.

Established in 1954 and based in Coimbatore (Tamil Nadu), SMPL is managed by Mr. S Venkatkumar. SMPL has an installed capacity of 25,600 spindles and manufactures 100 percent cotton combed yarn.

Analytical Approach

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

Key Rating Drivers

Strengths:

☐ Experienced management and established track record of operations

SMPL is promoted and managed by Mr. S Venkatkumar with more than three decades of experience in the textile industry. The company was incorporated in 1954 and commenced production initially with an installed capacity of 3000 spindles which was gradually expanded to the present total capacity of 25,600 spindles. The promoter's experience in textile industry has helped the company build healthy relationship with its suppliers and customers to ensure a steady raw material supply and large offtake. It has gradually moved from manufacturing 100 percent regular cotton yarn to 100 percent combed cotton yarn over the years. Despite the volatility in cotton prices and cotton yarn and increasing competition, the company's scale of operations remain stable, though modest at Rs.33.93 crore in FY2018 (Provisional). Acuité believes that promoter's extensive experience in textile industry would aid the business risk profile of the company over the medium term.

☐ Healthy financial risk profile

SMPL's financial risk profile is marked by healthy debt protection metrics and capital structure. The gearing was healthy at 0.77 times as on March, 2018 on provisional basis. This is due to conservative debt policy and moderate net worth. Net worth is moderate at Rs.10.74 crore as on March, 2018 (Rs.9.30 crore as on March 2017) vis-à-vis debt of Rs.7.35 crore (Rs.7.42 crores as on March 2017) for the same period. SMPL's moderate net cash accruals and moderate debt has led to healthy net cash accruals to total debt (NCA/TD) and interest coverage ratio of 0.35 times and 6.81 times in FY2018 (Provisional) vis-à-vis 0.36 times and 6.92 times in FY2017. Acuité believes that with profitability to remain stagnant, no capex plans over the medium term, and reliance on bank lines to remain moderate, the financial risk profile is expected to remain healthy over the medium term.

☐ **Moderate working capital cycle**

SMPL's operations are moderately working capital intensive with Gross Current Assets (GCA) of about 128 days in FY2018 on provisional basis. The cotton industry is marked by high inventory holding levels. Cotton is generally procured during the season beginning from October to March to sustain the raw material requirement for upcoming 3-4 months; it is reflective in terms of its inventory days of 80-104 days over the last three years ending March, 2018 (Provisional). SMPL procures cotton in February and March of every year basis the price movement and availability of cotton overall for domestic use. SMPL sells to garment manufacturers and traders and dealers across Maharashtra against credit period of around 20-30 days. SMPL procures from ginneries, farmers and traders against open credit of 30-60 days. Moderate working capital cycle backed by high inventory, but moderate debtors and creditors has led to moderate bank line utilisation of 60 percent over the last six months ending August, 2018. Acuité believes that working capital cycle would remain moderate over the medium term.

Weaknesses:

☐ **Steady topline; remains modest**

SMPL's revenue has grown steadily over the last three years to Rs.33.93 crore in FY2018 on provisional basis from Rs.30.20 crore in FY2016 due to capacity being already utilised at high levels. Despite increasing cotton prices and lower yarn realisations, SMPL has been able to sustain and grow the scale by continuous addition and upgradation of its spindle capacity by incurring capex at smaller range of Rs.1-2 crore every year. Acuité believes that the revenue growth would continue to remain modest over the medium term until any modernisation or enhancement in capacity is undertaken on larger scale.

☐ **Moderate EBITDA margins; susceptible to volatility in raw material prices**

EBITDA margins have been in the range of 8.0 percent to 10.6 percent over the last three years ending FY2018. Raw cotton prices are highly volatile in nature and depend largely on factors like area under cultivation, monsoon, crop yield, international demand-supply, pricing and inventory carry forward of the previous year. Cotton being the major raw material of spinning mills, volatility in the prices of cotton impacts the profitability of the company. Further, the company operates in a highly competitive, commoditised and fragmented cotton industry with several organised and unorganised players operating in the same industry. Acuité believes that SMPL's EBITDA margins would remain susceptible to raw material price volatility and high inventory holding levels over the medium term.

Outlook:

Acuité believes that SMPL will continue to maintain 'Stable' outlook over the medium term from its promoter's industry experience. The outlook may be revised to 'Positive' if the company reports increased operating revenues while sustaining its cash accruals. Conversely, the outlook may be revised to 'Negative' in case of any stretch in its working capital management leading to deterioration of its financial risk profile and liquidity.

About the Rated Entity Financials

	Unit	FY18 (Provisional)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	33.93	31.00	30.20
EBITDA	Rs. Cr.	3.46	3.29	2.41
PAT	Rs. Cr.	1.28	1.45	0.41
EBITDA Margin	(%)	10.19	10.62	7.97
PAT Margin	(%)	3.78	4.69	1.34
ROCE	(%)	12.52	13.15	8.62
Total Debt/Tangible Net Worth	Times	0.68	0.80	0.76
PBDIT/Interest	Times	6.81	6.92	4.57
Total Debt/PBDIT	Times	2.07	2.20	2.28
Gross Current Assets (Days)	Days	128	118	110

Status of non-cooperation with previous CRA:

Not Available

Any other information:

Not Available

Applicable Criteria

- ☐ Financial Ratios and Adjustments: <https://www.acuite.in/view-rating-criteria-20.htm>
- ☐ Manufacturing Entities: <https://www.acuite.in/view-rating-criteria-4.htm>
- ☐ Default Recognition: <https://www.acuite.in/view-rating-criteria-17.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Not Applicable

*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	6.20	ACUITE BB/Stable (Assigned)
Term Loans	Not Applicable	Not Applicable	Not Applicable	3.73	ACUITE BB/Stable (Assigned)

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About Acuité Ratings & Research:

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