

Press Release

Sathuragiri Softex India Private Limited

January 25, 2019

Rating Assigned



Total Bank Facilities Rated*	Rs. 21.00 Cr.
Long Term Rating	ACUITE BB- / Outlook: Stable

* Refer Annexure for details

Rating Rationale

Acuite has assigned long-term rating of '**ACUITE BB-**' (read as **ACUITE double B minus**) to the Rs. 21.00 crore bank facilities of Sathuragiri Softex India Private Limited (SSPL). The outlook is '**Stable**'.

The Tamil Nadu based SSPL, incorporated in May 2017, is promoted by Mr. Kunnathur Selambanna Ponnusamy and his family. The company commenced its commercial production from December 2017. It is engaged in the business of manufacturing of 100 percent combed cotton yarn with counts 10s to 40s and has a spinning capacity of 7000 spindles.

Analytical Approach

Acuite has considered the standalone business and financial risk profiles of SSPL to arrive at the rating.

Key Rating Drivers

Strengths

- **Experienced management**

Established in 2017, SSPL is promoted by Mr. Ponnusamy, and his sons, Mr. Shivakumar and Mr. Prabhu who have been associated with the textile industry for over two decades. Mr. Ponnusamy is one of the founder members of the Chola group of companies headquartered in Tiruppur (Tamil Nadu), engaged in the manufacturing of hosiery yarn. Extensive experience of the promoters in the business has helped the company in acquiring customers including J. G. Hosiery Private Limited (brand name Amul), J M Hosiery & Co Limited (brand name Lux) and Andavar Clothing Company. Acuite believes that SSPL will continue to benefit on the back of its promoters established presence in the industry.

Weaknesses

- **Average financial risk profile**

The financial risk profile of the company is characterised by moderate net worth high gearing and moderate debt protection measures. The net worth base of SSPL stood at Rs.4.39 crore as on 31 March, 2018. The gearing of the company stood high at 3.56 times as on 31 March, 2018 since the company is in its initial phase of operation. The total debt of Rs. 15.61 crore includes short term working capital borrowing of Rs.4.40 crore, long term debt of Rs.9.73 crore and unsecured loans from promoters of Rs.1.48 crore. The interest coverage ratio of the company stood at 3.53 times in FY2018. The net cash accruals to total debt (NCA/TD) stood at 0.14 times in FY2018.

- **Susceptible to fluctuations in cotton prices and government regulations**

Raw cotton prices are highly volatile in nature and are largely depend on factors such as area under cultivation, crop yield and climatic conditions. Cotton being the major raw material of spinning mills volatility in the prices of cotton impacts the profitability of the company. The company is also exposed to intense competition in the highly fragmented industry from organised and unorganised players.

Liquidity Position

Company is still in its initial phase of operations and is yet to demonstrate adequate liquidity. Net cash accruals stood at Rs. 0.55 crore in FY2018 (3 months of operations) and is expected to be in the range of Rs. 2.04 crore to Rs. 3.18 crore over the medium term against a repayment obligation of Rs. 0.67 crore

to Rs. 1.56 crore in the same period. Gross current asset (GCA) stood moderate at 103 days for FY2018. The current ratio stood at 1.41 times as on March 31, 2018. Acuite believes that the liquidity of the SSPL is likely to remain adequate over the medium term on account of healthy cash accrual over the medium term.

Outlook: Stable

Acuite believes that SSPL will maintain a 'Stable' business risk profile over the medium term. SSPL will continue to benefit from the extensive experience of the promoters in the industry and reputed customers. The outlook may be revised to 'Positive' in case the company registers sustained growth in revenues while maintaining its profitability and improvement in financial risk profile. The outlook may be revised to 'Negative' in case of further deterioration in the its financial risk profile due to debt funded capital expenditure.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)
Operating Income	Rs. Cr.	9.23
EBITDA	Rs. Cr.	0.75
PAT	Rs. Cr.	0.17
EBITDA Margin	(%)	8.11
PAT Margin	(%)	1.83
ROCE	(%)	15.41
Total Debt/Tangible Net Worth	Times	3.56
PBDIT/Interest	Times	3.53
Total Debt/PBDIT	Times	5.10
Gross Current Assets (Days)	Days	103

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

None

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)

Not Applicable

*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	9.67	ACUITE BB- / Stable (Assigned)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	6.92	ACUITE BB- / Stable (Assigned)
Proposed	Not Applicable	Not Applicable	Not Applicable	4.41	ACUITE BB- / Stable (Assigned)

Contacts

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About Acuité Ratings & Research:

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