

Press Release

Sathuragiri Softex India Private Limited

October 07, 2019

Rating Reaffirmed & Assigned



Total Bank Facilities Rated*	Rs.28.50 Cr. (Enhanced from Rs.21.50 Cr.)
Long Term Rating	ACUITE BB- / Outlook: Stable

* Refer Annexure for details

Rating Rationale

Acuite has reaffirmed the long-term rating '**ACUITE BB-**' (read as **ACUITE double B minus**) on the Rs.22.50 crore and assigned the long-term rating '**ACUITE BB-**' (read as **ACUITE double B minus**) on the Rs.6.00 crore bank facilities of Sathuragiri Softex India Private Limited (SSI). The outlook is '**Stable**'.

SSI was incorporated by Mr. Kunnathur Selambanna Ponnusamy and his family in May 2017. However, the commercial production commenced from December 2017. SSI is engaged in manufacturing of 100 per cent combed cotton yarn with counts ranging from 10s to 40s. The manufacturing facility is located in Tamil Nadu with spinning capacity of 7000 spindles.

Analytical Approach

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

Key Rating Drivers

Strengths

• Technically qualified and experienced management

The promoter, Mr. Ponnusamy, has extensive experience of more than three decades in the textile industry. He is well supported by second line of management comprising, Mr. Prabhu and Mr. Sivakumar, who have more than two decades of experience. Mr. Prabhu is graduate in textile technology from Australia and Mr. Sivakumar is an engineer graduate. Their knowledge base has enabled ADF to successfully ramp up its operations during the start-up phase and establish relationship with reputed market player such as J. G. Hosier Private Limited (Brand of Amul). Acuite believes that the experience of the management is expected to support in improvement of the business risk profile over the medium term.

Weaknesses

• Average financial risk profile

SSI has average financial risk profile marked by low net worth, high gearing and moderate debt protection metrics. The tangible net worth stood at Rs. 4.83 crore as on 31 March, 2019 as against Rs. 4.33 crore as on 31 March, 2018. The gearing stood high at 4.60 times as on 31 March, 2019 as against 3.61 times as on 31 March, 2018. The total debt of Rs. 22.21 crore as on 31 March, 2019 consists of term loan of Rs.12.92 crore, working capital borrowing of Rs. 6.77 crore and unsecured loans from promoters of Rs. 2.51 crore. SSI has debt obligations of Rs.1.01 in FY2019 and Debt Service Coverage Ratio (DSCR) stood moderate at 1.59 times for FY2019. The Interest Coverage Ratio (ICR) also stood moderate at 2.55 times for FY2019. Further, Net Cash Accruals to Total Debt (NCA/TD) stood at 0.09 times in FY2019.

Acuite believes that the company will improve its financial risk profile in the near to medium term.

• Susceptibility of profitability to volatility in raw material prices

The prices of cotton are highly dependent on agro-climatic conditions and the purchase price of cotton depends on the prevailing demand-supply situation which limits bargaining power with suppliers as well. Acuite believes that SSI should be able to maintain its operating profitability around existing levels, notwithstanding the volatility in prices of its key inputs, on the back of its established relationship with suppliers. Further, the margins are likely to be sustained in the near future with the introduction of compact yarn, which yields relatively better margins.

Rating Sensitivities

- Substantial improvement in scale of operation, while improving profitability margin.
- Deterioration in financial risk profile.

Material covenants

None

Liquidity Position: Adequate

Liquidity profile of SSI is adequate reflected by sufficient net cash accruals against its maturing debt obligations. ADF has reported cash accruals of Rs. 2.02 crore in FY2019 and expected to generate cash accruals in the range of Rs. 2.00-3.00 crore over the medium term. The repayment obligations are in the range of Rs.1.01-1.44 crore for the period FY2020-2022. The utilisation of working capital limits more than 95 per cent. The current ratio stood at 1.50 times in FY2019. Acuite believes that the liquidity of the company is likely to remain adequate over the medium term on account of adequate cash accrual against no major debt repayments.

Outlook: Stable

Acuite believes that SSI will maintain a 'Stable' outlook over the medium term on the back of its experienced management. The outlook may be revised to 'Positive' in case the company registers higher-than-expected growth in its revenue and profitability, while improving its working capital cycle. Conversely, the outlook may be revised to 'Negative' in case the company registers lower-than-expected growth in revenues or in case of deterioration in the company's financial risk.

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	40.42	9.23	0.00
EBITDA	Rs. Cr.	3.71	0.75	0.00
PAT	Rs. Cr.	0.48	0.17	0.00
EBITDA Margin	(%)	9.18	8.11	0.00
PAT Margin	(%)	1.19	1.83	0.00
ROCE	(%)	9.38	3.87	0.00
Total Debt/Tangible Net Worth	Times	4.60	3.61	0.00
PBDIT/Interest	Times	2.55	3.53	0.00
Total Debt/PBDIT	Times	5.93	20.41	0.00
Gross Current Assets (Days)	Days	191	409	0.00

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

None

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.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)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
25-January-2018	Term loan	Long Term	9.67	ACUITE BB- / Stable (Assigned)
	Cash Credit	Long Term	6.92	ACUITE BB- / Stable (Assigned)
	Proposed Cash Credit	Long Term	4.41	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. Cr.)	Ratings/Outlook
Term Loan	Not Applicable	Not Applicable	Not Applicable	9.67	ACUITE BB- / Stable (Reaffirmed)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	6.92	ACUITE BB- / Stable (Reaffirmed)
Proposed Term Loan	Not Applicable	Not Applicable	Not Applicable	4.00	ACUITE BB- / Stable (Assigned)
Proposed Term Loan	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE BB- / Stable (Assigned)
Proposed Cash Credit	Not Applicable	Not Applicable	Not Applicable	3.00	ACUITE BB- / Stable (Assigned)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	2.91 (Revised from Rs.4.41 crore)	ACUITE BB- / Stable (Reaffirmed)

Contacts

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About Acuité Ratings & Research:

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