

Press Release

The Suguna Mills Private Limited

D-U-N-S® Number: 92-052-4357



February 12, 2019

Rating Assigned

Total Bank Facilities Rated*	Rs. 7.60 Cr.
Long Term Rating	ACUITE B+ / Outlook: Stable

* Refer Annexure for details

Rating Rationale

Acuité has assigned long-term rating of '**ACUITE B+**' (read as **ACUITE B plus**) on the Rs. 7.60 crore bank facilities of The Suguna Mills Private Limited. The outlook is 'Stable'.

TSPL was incorporated in 1956 by Mr. G.V. Kasthurisamy Naidu. The company is engaged in the manufacturing of cotton yarn of the counts 80's to 100's, with spindle capacity of 14432 based out of Coimbatore (Tamil Nadu). The company is currently managed by Ms. S. Suguna and Mr. B. Selvarajan who have experience of over four decades in the textile industry.

Analytical Approach

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

Key Rating Drivers

Strengths

- **Experienced management, long track record of operations**

TSPL is engaged in the manufacturing of cotton yarn. The vast experience of Directors in the textile industry has helped in establishing relationships with various customers and suppliers. Further, with modest capex over the past three years, the promoters were successful in improving its operating margins from a low of 1.5 percent in FY2016 to 8.9 percent in FY2018. Acuité believes that promoters' extensive experience in textile industry is expected to support in sustaining the revenue profile and the operating margins over the medium term.

- **Moderate financial risk profile**

Financial risk profile of the company is moderate marked by healthy gearing (Debt-Equity), debt protection metrics and comfortable total outside liabilities to total net worth (TOL/TNW). Gearing stood healthy at 0.95 times as on 31 March, 2018 against to 0.67 times as on 31 March, 2017. Of the total debt of Rs.5.68 crore on 31 March, 2018, long term debt constitute Rs.1.00 crore, short term debt of Rs.2.01 crore with CPLTD for both Rs. 0.29 crore and unsecured loan of Rs.2.39 crore. Net worth was modest at Rs.5.98 crore as on 31 March, 2018. TOL/TNW stood comfortable at 0.87 times as on 31 March, 2018. Debt protection metrics of interest coverage ratio and net cash accruals to total debt stood moderate at 3.50 times and 0.15 times in FY2018. Debt service coverage ratio is moderate at 1.80 times. Acuité believes that despite modest accruals and

the capex, financial risk profile continues to be moderate on account of healthy capital structure and low indebtedness over the medium term.

Weaknesses

- **Efficient Working capital management**

The operations are efficiently managed with gross current assets (GCA) of 99 days as on March 31, 2018, driven by moderate inventory of 64 days and debtors of 26 days. It maintains an average inventory of about two months of its requirement for year-long operations. Efficient working capital management and modest scale of operations lead to moderate utilization of its working capital lines at about 80-90 percent. Acuité believes that with modest scale of operations, efficient inventory and receivables in place, TSPL's operations continue to be working capital efficient.

- **Susceptibility of operating margins to volatility in raw material prices**

Operating margins of cotton spinners are susceptible to changes in cotton prices, which is highly volatile and commoditised product. Any abrupt change in cotton prices due to supply-demand scenario, carry-over stocks in the overseas market, and changes in government regulations on minimum support price (MSP) could lead to distortion in market prices and affect the profitability of players across the cotton value chain, including spinners. However, operating margins have increased from 1.56 percent in FY2016 to 8.85 percent in FY2018, though low within the peer segment.

Liquidity Position:

TSPL has adequate liquidity marked by liquid investments and moderate net cash accruals to its maturing debt obligations. The company has liquid funds of about Rs.3.7 crore as on March 31, 2018; in FY2017, it has sold investments in shares in listed entities and made a profit of Rs.3.9 crore. The company reported cash accruals of Rs.0.87 crore in FY2018. Its cash accruals are expected to be at similar levels tightly matching to its repayment obligations of about Rs.0.7 crore. Current ratio of the company stood at 1.55 times as on March 31, 2018. The company is likely to incur capex of Rs.1.90 crore over the medium which is likely to be funded by term loan and promoters contribution. Acuité believes that the liquidity of TSPL is likely to remain adequate over the medium term on account of liquid investments, and moderate accruals.

Outlook: Stable

Acuité believes that TSPL will maintain a 'Stable' outlook over the medium term from its Directors' industry experience. The outlook may be revised to 'Positive' in case of significant growth in its revenues while improving its operating margins. Conversely, the outlook may be revised to 'Negative' in case of any stretch in its working capital management or liquidation of its investments leading to deterioration of its financial risk profile and liquidity.

About the Rated Entity - Key Financials

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	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	16.56	15.00	14.25
EBITDA	Rs. Cr.	1.47	0.49	0.22
PAT	Rs. Cr.	0.28	3.55	-0.40
EBITDA Margin	(%)	8.85	3.25	1.56
PAT Margin	(%)	1.71	23.67	-2.79
ROCE	(%)	12.03	66.61	2.71
Total Debt/Tangible Net Worth	Times	0.95	0.67	1.71
PBDIT/Interest	Times	3.50	12.17	1.14
Total Debt/PBDIT	Times	3.40	0.87	6.12
Gross Current Assets (Days)	Days	99	86	86

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

None

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.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	1.86	ACUITE B+ / Stable
Cash Credit	Not Applicable	Not Applicable	Not Applicable	2.50	ACUITE B+ / Stable
Term loans	Not Applicable	Not Applicable	Not Applicable	1.20	ACUITE B+ / Stable
Term loans	Not Applicable	Not Applicable	Not Applicable	2.04	ACUITE B+ / Stable

Contacts

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About Acuité Ratings & Research:

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