

Press Release

Selvi Spinning Mill

March 06, 2019

Rating Assigned



Total Bank Facilities Rated*	Rs. 11.88 Cr.
Long Term Rating	ACUITE B+ / Outlook: Stable
Short Term Rating	ACUITE A4

* Refer Annexure for details

Rating Rationale

Acuite has assigned long-term rating of '**ACUITE B+**' (read as **ACUITE B plus**) and short term rating of '**ACUITE A4**' (read as **ACUITE A four**) to the Rs. 11.88 crore bank facilities of Selvi Spinning Mill (SSM). The outlook is '**Stable**'.

SSM, established in 1999 by Mr. K.R. Subramanian, is a Coimbatore based proprietorship firm. Currently, the day to day operations are managed by Mr. Ranjith Subramanian (Son of Mr. K.R. Subramanian). SSM is engaged in manufacturing of cotton yarn with an average count of 60s. SSM has total 12768 spindles. SSM also has two windmills one with 750 KW and another with 800 KW and the complete power from these windmill is used for own consumption. The concern procures raw cotton from Maharashtra, Telangana and Tamil Nadu and sells yarn through dealers in Coimbatore and Mumbai.

Analytical Approach

Acuite has considered standalone business and financial risk profile of SSM to arrive at the rating.

Key Rating Drivers

Strengths

- Established track record of operations and experienced management**

SSM was established in 1999 by Mr. K.R. Subramanian, thereby establishing track record for more than two decades in the yarn industry. Thus, the concern has developed healthy relations with the customers and suppliers which help it to get repeated business.

Acuite believes that the concern will sustain the existing business profile on the back of established track record of operations and experienced management in the yarn industry.

- Moderate working capital cycle**

The working capital cycle of SSM is moderate marked by Gross Current Assets (GCA) of 114 days in FY2018 (PY: 137 days). The GCA has improved on account of better realisation from inventory in FY2018 as compared to FY2017. The inventory stood at 65 days in FY2018 (PY: 103 days). SSM gives credit period of 10 to 15 days to its dealers resulting in receivable days of 5 in FY2018 and majority of the transactions are on advances payments received from the customers. SSM receives credit period of around 15 days from its suppliers, thus results in lower utilisation of bank limits. The average bank limit utilisation stood at 80 per cent for the last six months ended January, 2019.

Weaknesses

- Small scale of operations with uneven profitability**

The operations of SSM are relatively small marked by operating income of Rs.14.32 crore in FY2018 as against Rs.11.02 crore in FY2017. Further, SSM has registered operating income of Rs.18.71 crore for the period April to December, 2018 (Provisional). The operating margin has declined on account of volatility in cotton prices in FY2018 as compared to FY2017 which is the raw material used for manufacturing of yarn. The net profitability margin declined to 5.48 per cent in FY2018 as against 16.07 per cent in FY2017 on account of one-time non-operating profit incurred by the concern in

FY2017 amounting to Rs.1.05 crore.

Acuite believes that the ability of SSM in order to maintain its revenues and profitability will remain key rating sensitivity.

- **Moderate financial risk profile**

The financial risk profile of SSM is moderate marked by small net worth of Rs.5.25 crore as on 31 March, 2018 (PY: Rs.4.71 crore). The total debt of Rs.5.82 crore outstanding as on 31 March, 2018 comprise Rs.2.22 crore secured loan from the bank, Rs.0.46 crore as unsecured loans from the promoter and family and Rs.3.14 crore as working capital borrowings from the bank. The gearing (debt-equity) stood at 1.11 times as on 31 March, 2018 (PY: 1.15 times).

SSM is installing 1MW solar power plant in its factory premises for a total project cost of Rs.4.00 crore funded through a term loan of Rs. 3.00 crore and proprietor's fund of Rs.1.00 crore. The entire power generated through this solar project will be utilised for the own consumption of SSM. The gearing is estimated to remain in the range of 1.00 to 0.90 times for FY2019-FY2021 considering the additional term loan. The interest coverage ratio stood at 4.52 times in FY2018 (PY: 7.39 times). The debt service coverage ratio declined to 1.98 times in FY2018 (PY: 2.57 times) on account of decline in profits in FY2018 over FY2017. The net cash accruals declined to Rs.1.65 crore in FY2018 (PY: Rs. 2.66 crore) on account of declining profitability.

The ability of SSM in order to generate adequate accruals for the repayment of the debt obligation will remain crucial owing to the debt funded capital expenditure plan undertaken by the concern.

- **Intense competition**

SSM operates in an intensely competitive and commoditised yarn industry, characterised by low product differentiation and fragmented industry structure which restricts pricing flexibility. Thus, the earnings of market players remain exposed to the volatility in prices, which have constrained contribution levels witnessed during FY2018. In addition, the requirement of stocking cotton during the harvest season to support manufacturing operations also results in working capital intensive operations and increases price risks.

Liquidity Position:

SSM has moderate liquidity marked by average net cash accruals as compared to its maturing debt obligations. SSM generated cash accruals of Rs.1.65 to 2.66 crore during the last three years through 2017-18, while the maturing debt obligations were in the range of Rs.0.84-0.60 crore over the same period. The cash accruals of SSM are estimated to remain around Rs.2.40-3.00 crore during 2019-21, while its repayment obligations are estimated to be around Rs.1.04 crore. The current ratio of SSM stood moderate at 1.24 times as on March 31, 2018. Acuite believes that the liquidity of SSM is likely to remain moderate over the medium term on account of major repayments for the solar power project undertaken by SSM.

Outlook: Stable

Acuite believes that SSM will maintain a 'Stable' outlook over the medium term on account of the firm's established track record of operations in the cotton yarn industry and extensive experience of its promoters. The outlook may be revised to 'Positive' in case of substantial increase in profitability margins supported by healthy revenue growth or significant improvement in its capital structure owing to equity infusion by promoters. Conversely, the outlook may be revised to 'Negative' in case of sharp decline in profitability margins or deterioration in the financial risk profile due to debt-funded capital expenditure or elongated working capital cycle.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	14.32	11.02	12.37
EBITDA	Rs. Cr.	2.06	1.99	1.92
PAT	Rs. Cr.	0.78	1.77	0.45
EBITDA Margin	(%)	14.40	18.02	15.52
PAT Margin	(%)	5.48	16.07	3.67
ROCE	(%)	11.83	22.67	21.53
Total Debt/Tangible Net Worth	Times	1.11	1.15	1.96
PBDIT/Interest	Times	4.52	7.39	3.70
Total Debt/PBDIT	Times	2.75	1.75	3.07
Gross Current Assets (Days)	Days	114	137	109

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>
- 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
Cash Credit	Not Applicable	Not Applicable	Not Applicable	4.50	ACUITE B+ / Stable
Term loan I	Not Applicable	Not Applicable	Not Applicable	0.25	ACUITE B+ / Stable
Term loan II	Not Applicable	Not Applicable	Not Applicable	1.25	ACUITE B+ / Stable
Term loan III	Not Applicable	Not Applicable	Not Applicable	1.04	ACUITE B+ / Stable
Term loan IV	Not Applicable	Not Applicable	Not Applicable	1.75	ACUITE B+ / Stable
Proposed Term Loan	Not Applicable	Not Applicable	Not Applicable	3.00	ACUITE B+ / Stable
Bank guarantee	Not Applicable	Not Applicable	Not Applicable	0.09	ACUITE A4

Contacts

Analytical	Rating Desk
<p>Aditya Gupta Head - Corporate and Infrastructure Sector Ratings Tel: 022-49294041 aditya.gupta@acuите.in</p> <p>Namita Palve Analyst - Rating Operations Tel: 022-49294034 namita.palve@acuiteratings.in</p>	<p>Varsha Bist Manager - Rating Desk Tel: 022-67141160 rating.desk@acuите.in</p>

About Acuite Ratings & Research:

Acuite Ratings & Research Limited (erstwhile SMERA Ratings Limited) is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL -II norms in the year 2012. Since then, it has assigned more than 6,000 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Mumbai.

Disclaimer: An Acuite rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. Acuite ratings are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, Acuite, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. Acuite is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind arising from the use of its ratings. Acuite ratings are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website (www.acuite.in) for the latest information on any instrument rated by Acuite.