Press Release

Sree Kailaii Spinners Private Limited

D-U-N-S® Number: 91-599-6884

March 18, 2019

Rating Assigned

Total Bank Facilities Rated*	Rs. 20.50 Cr.
Long Term Rating	ACUITE BB- / Outlook: Stable

** Refer Annexure for details*

Rating Rationale

Acuité has assigned long-term rating of '**ACUITE BB-**' **(read as ACUITE double B minus)** to the Rs. 20.50 crore bank facilities of Sree Kailaii Spinners Private Limited (SKPL). The outlook is '**Stable**'.

SKPL was originally established as a partnership firm under the name 'Sree Kailaii Sivasakthi Spinners' in 1993. The firm was converted into a private limited company and renamed as Sree Kailaii Spinners Private Limited in 2005. The company is into manufacturing of cotton yarn with spindle capacity of 11500.

Analytical Approach

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

Key Rating Drivers

Strengths

- **Extensive experience of management**

SKPL is promoted by Mr. Thangamani Sivasubramaniam, Mr. Sivasubramanian Arumugam, Mr. Vellakkinar Sivasubramanian Karthikeyan, Mr. Mohan Shankar Sivasubramaniam. The promoters are vintage people with presence in the textile industry for over two decades. This helped to build healthy relationship with its suppliers and customers to ensure a steady raw material supply and repeat business. It helped in improving the revenues at a compound annual growth rate (CAGR) of about 12.54 percent from Rs.20.48 crore in FY2016 to Rs.25.94 crore in FY2018. The increase in revenue is attributed to increase in production capacity year-on-year.

Further, the promoters are planning to increase the spindle capacity to 20500 from 11,500. The same along with other equipment is expected to cost about Rs.10.0 crore; the same is proposed to be funded out of debt of about Rs.8-9 crore, and balance out of internal accruals and unsecured loans from the promoters. To support its power requirement, SKPL has about 2.67 mega-watt of wind mill power which supports about 60 per cent of their power demand.

Further, SKPL manufactures cotton yarn against confirmed orders which provide revenue visibility as well as low receivable risk. Acuité believes that SKPL is expected to enjoy the benefit of proximity to the cotton growing area along with the promoters' experience, expected increase in production capacity and local presence in improvement of its business risk profile over the medium term.

- **Moderate financial risk profile**

The financial risk profile is marked by healthy capital structure and comfortable debt protection metrics though constrained by modest net worth. The gearing (debt-to-equity) is healthy at 0.91 times as on March 31, 2018 against 1.19 times in FY2017. The total outside liabilities to total net worth (TOL/TNW) is moderate at 1.15 times in FY2018. However, its net worth is modest at Rs.5.64 crore in FY2018 as against Rs.5.14 crore in FY2017; owing to modest scale of operations and low accretion to reserves. However, gearing is expected to deteriorate to moderate levels, as SKPL is proposing debt-funded capex of Rs.10.0 crore with proposed debt of about Rs.8-9 crore.

Comfortable net cash accruals and debt has led to comfortable NCA/TD and interest coverage ratio of 0.31 times and 4.14 times in FY2018 vis-à-vis 0.15 times and 3.14 times in FY2017, respectively. SKPL reported cash accruals of Rs.1.56 crore in FY2018; its accruals are expected in the range of Rs.2.00 crore to Rs.2.50 crore against repayment obligations of about Rs.1.20 crore over the medium term which gives adequate cushion for the incremental working capital requirements. Acuité believes that SKPL's financial risk profile is expected to be at moderate levels supported by experienced management, adequate cushion between cash accruals and repayment obligations over the medium term.

- **Efficient working capital management**

SKPL's working capital operations are efficiently managed as evident from Gross Current Assets (GCA) of 75-95 days historically due to prudent inventory management, and efficient collection of trade receivables supported by reputed clientele. The inventory days of two months are majorly driven by seasonality of the cotton and suppliers in and around the factory. Also, SKPL extends credit of about two months to its clientele. This results in moderate reliance on bank lines at about 71 percent over six months through February 2019. Acuité believes that SKPL's operations continue to be efficiently managed as supported by efficient collection mechanism and in time inventory levels.

Weaknesses

- **Modest scale of operations, though improving**

SKPL's revenue has shown Y-O-Y growth over the last 3 years ending March, 2018 from Rs.20.48 crore in FY16 to Rs.25.94 crore in FY18; reflecting a CAGR of about 12.54 percent for over three years through FY2018. For 10MFY2019, SKPL has booked revenues of Rs.19.25 crore and is expecting revenues around Rs.26-28 crore. However, going forward the revenue profile is expected to improve supported by proposed increase in spindle capacity. Despite the same, the revenues are at modest levels within the spinning industry. The revenue growth over the past three years is driven by increased capacity utilisation, continuous customer addition and established presence.

- **Volatile profitability**

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 government regulations on changes in minimum support price (MSP) can lead to distortion in market prices and affect the profitability of players across the cotton value chain, including spinners. Operating margins of SKPL are so volatile with margins dropping to 5.57 per cent in FY2017 from highs of 9.69 per cent in FY2018. Acuité believes that sustenance of the margins is key rating sensitivity factor over the medium term.

- **Highly competitive and fragmented industry**

SKPL operates in textile spinning industry which is highly fragmented. The Indian textile industry is highly competitive and marked by presence of large number of unorganised and organised players. Further, industry has low entry barriers increasing competition for players such as SKPL, thereby putting pressure on bargaining power with customers.

Liquidity Position:

SKPL has moderate liquidity marked by moderate net cash accruals to its maturing debt obligations. SKPL generated cash accruals of Rs.1.56 in FY2018 and its repayment obligations about Rs.0.60 Crs; further cash accruals are estimated to remain around Rs.2.00 to 2.50 crore during 2019-21, while its repayment obligations are estimated to be Rs.1.00- 1.50 crore over the medium term.

SKPL's operations are efficiently managed as marked by Gross Current Assets (GCA) of 91 days in FY 2018. This has led to moderate reliance on working capital borrowings with average utilisation at about 71 percent during the last 6-month period ended February 2019. The current ratio of the SKPL stood at 1.64 times as on March 31, 2018 improved from 1.48 times in FY2017.

SKPL propose to implement moderate capex of about Rs.10.0 crore, funded out of term loan of about Rs.8-9 crore; the same is for expanding the production capacity. Acuité believes that the liquidity profile continues to be moderate supported by moderate cash accruals to debt obligations and promoters' flexibility to support by way of unsecured loans.

Outlook: Stable

Acuité believes that SKPL will continue to maintain 'Stable' outlook over the medium term from its promoters' industry experience. The outlook may be revised to 'Positive' if the company reports substantial increase in operating revenues while sustaining its margins and cash accruals. Conversely, the outlook may be revised to 'Negative' in case of any stretch in its working capital cycle or any time or cost overrun in its debt funded capex leading to deterioration of its financial risk profile and liquidityprofile.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	25.94	23.18	20.48
EBITDA	Rs. Cr.	1.86	1.29	1.98
PAT	Rs. Cr.	0.39	0.26	0.64
EBITDA Margin	(%)	7.16	5.57	9.69
PAT Margin	(%)	1.51	1.11	3.14
ROCE	(%)	9.02	8.51	15.88
Total Debt/Tangible Net Worth	Times	0.91	1.30	0.74
PBDIT/Interest	Times	4.15	3.14	6.87
Total Debt/PBDIT	Times	2.33	4.07	1.49
Gross Current Assets (Days)	Days	91	99	81

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
Cash Credit	Not Applicable	Not Applicable	Not Applicable	4.00	ACUITE BB- / Stable
Term loans	Not Applicable	Not Applicable	Not Applicable	2.50	ACUITE BB- / Stable
Proposed Term Loan	Not Applicable	Not Applicable	Not Applicable	9.50	ACUITE BB- / Stable
Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	4.50	ACUITE BB- / Stable

Contacts

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