

Press Release

Sree Kailai Spinners Private Limited

January 10, 2023

Rating Reaffirmed & Withdrawn



Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	20.50	ACUITE B+ Reaffirmed & Withdrawn	-
Total Outstanding Quantum (Rs. Cr)	0.00	-	-
Total Withdrawn Quantum (Rs. Cr)	20.50	-	-

Rating Rationale

Acuite has reaffirmed and withdrawn the long-term rating of '**ACUITE B+**' (read as **ACUITE B plus**) on the Rs. 20.50 crore bank facilities of Sree Kailai Spinners Private Limited (SKSPL). The rating is being withdrawn on account of the request received from the company and the NOC received from the banker as per Acuite's policy on withdrawal of ratings.

Rationale for the reaffirmation

The rating is reaffirmed considering the extensive experience of the promoters, moderate financial risk profile and efficient working capital management of the Company. The rating is constrained by susceptibility of profitability margins to raw material price fluctuation and highly competitive and fragmented nature of industry.

About the Company

SKSPL was originally established as a partnership firm under the name 'Sree Kailai Sivasakthi Spinners' in 1993. The firm was converted into a private limited company and renamed as Sree Kailai Spinners Private Limited in 2005. The company is into manufacturing of cotton yarn with spindle capacity of 23600 MTPA. The company is promoted and managed by Thangamani Sivasubramaniam, Sivasubramanian Arumugam, Vellakkinar Sivasubramanian Karthikeyan and Mohan Shankar Sivasubramaniam.

Analytical Approach

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

Key Rating Drivers

Strengths

> Extensive experience of promoters and established track record of operations

Constituted in 2005 as a partnership firm, SKSPL has an established track record of operations of more than two decades. The company is owned and promoted by Mr. Thangamani Sivasubramaniam, Mr. Sivasubramanian Arumugam, Mr. Vellakkinar Sivasubramanian Karthikeyan and Mr. Mohan Shankar Sivasubramaniam. The promoters have an industry experience of more than two decades which has helped them in build healthy relationships with its suppliers and customers to ensure a steady raw material supply and repeat business. The revenue of the company rose to Rs.68.87 crore in FY2022 from Rs.36.37 crore in FY2021. The

EBITDA and PAT Margins of the company also improved. The EBITDA Margins of the company stood at 13.58 percent in FY2022 as against 9.76 percent in FY2021. The PAT Margins stood at 2.45 percent in FY2022 as against 1.03 percent in FY2021.

> Moderate financial risk profile

The financial risk profile of the company is moderate marked by moderate net worth, gearing and comfortable debt protection metrics. The tangible net worth stood moderate at Rs.9.69 crore as on 31 March 2022 as against Rs.7.51 crore as on 31 March, 2021. Total debt of the company stood at Rs.32.88 crore as on 31 March 2022. Total debt comprises of long term debt of Rs 24.02 crore, short term debt of Rs 5.50 crore and USL from directors of Rs 2.02 crore. Gearing (debt-equity) of the company stood at 3.39 times as on 31 March 2022 as against 3.01 times as on 31 March, 2021. Total outside Liabilities/Total Net Worth (TOL/TNW) stood moderate at 3.76 times as on 31 March 2022 as against 3.20 times as on 31 March, 2021. Net Cash Accruals to Total Debt (NCA/TD) stood at 0.19 times as on 31 March 2022 as against 0.06 times as on 31 March 2021. Debt protection metrics of the company is marked comfortable with Interest Coverage Ratio at 4.91 times in FY2022 as against 2.12 times in FY2021.

> Moderately efficient working capital management

The working capital requirements of the company is marked efficient as the GCA stood at 93 days as on March 31, 2022 improving from 170 days as on March 31, 2021. The improvement in GCA is on the account of efficient inventory management. The Inventory days stood at 50 days as on March 31, 2022 as against 74 days as on March 31, 2021. The debtors day stood at 6 days as on March 31, 2022 as against 11 days as on March 31, 2021. The Creditors day stood at 8 days as on March 31, 2022 as against 2 days as on March 31, 2021.

Weaknesses

> Volatility in raw material prices

Operating margins of cotton spinners are susceptible to changes in cotton prices, which is highly volatile and commoditized 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. Further, cotton being a seasonal crop; it is dependent upon the vagaries of monsoon.

> Highly competitive and fragmented industry

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

Rating Sensitivities

> Significant improvement in scale of operation while maintaining its profitability margins.

> Efficiency in working capital cycle.

Material covenants

None

Liquidity Position

Adequate

The company's liquidity profile is adequate marked by adequate net cash accruals of Rs.6.29 Cr in FY2022 against the maturing debt obligations of Rs.3.40 Cr in the same period. The firm maintains unencumbered cash and bank balances of Rs. 0.09 crore as on March 31, 2022. The current ratio of the company stood moderate at 1.89 times as on March 31, 2022 as against 1.51 times as on March 31, 2021.

Outlook:

Not Applicable

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	68.87	36.37
PAT	Rs. Cr.	1.69	0.37
PAT Margin	(%)	2.45	1.03
Total Debt/Tangible Net Worth	Times	3.39	3.01
PBDIT/Interest	Times	4.91	2.12

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

None

Any other information

None

Applicable Criteria

- Default Recognition :- <https://www.acuite.in/view-rating-criteria-52.htm>
- Manufacturing Entities: <https://www.acuite.in/view-rating-criteria-59.htm>
- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

In order to inform the investors about complexity of instruments, Acuite has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in.

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
10 Nov 2022	Proposed Term Loan	Long Term	9.50	ACUITE B+ (Issuer not co-operating*)
	Proposed Bank Facility	Long Term	4.50	ACUITE B+ (Issuer not co-operating*)
	Cash Credit	Long Term	4.00	ACUITE B+ (Issuer not co-operating*)
	Term Loan	Long Term	2.50	ACUITE B+ (Issuer not co-operating*)
18 Aug 2021	Proposed Bank Facility	Long Term	4.50	ACUITE B+ (Issuer not co-operating*)
	Cash Credit	Long Term	4.00	ACUITE B+ (Issuer not co-operating*)
	Term Loan	Long Term	2.50	ACUITE B+ (Issuer not co-operating*)
	Proposed Term Loan	Long Term	9.50	ACUITE B+ (Issuer not co-operating*)
27 May 2020	Term Loan	Long Term	2.50	ACUITE B+ (Downgraded and Issuer not co-operating*)
	Proposed Term Loan	Long Term	9.50	ACUITE B+ (Downgraded and Issuer not co-operating*)
	Proposed Bank Facility	Long Term	4.50	ACUITE B+ (Downgraded and Issuer not co-operating*)
	Cash Credit	Long Term	4.00	ACUITE B+ (Downgraded and Issuer not co-operating*)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
City Union Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	4.00	ACUITE B+ Reaffirmed & Withdrawn
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Simple	4.50	ACUITE B+ Reaffirmed & Withdrawn
Not Applicable	Not Applicable	Proposed Long Term Loan	Not Applicable	Not Applicable	Not Applicable	Simple	9.50	ACUITE B+ Reaffirmed & Withdrawn
Small Industries Development Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	2.50	ACUITE B+ Reaffirmed & Withdrawn

Contacts

Analytical	Rating Desk
Aditya Gupta Vice President-Rating Operations Tel: 022-49294041 aditya.gupta@acuite.in Radhika Kolwankar Analyst-Rating Operations Tel: 022-49294065 radhika.kolwankar@acuite.in	Varsha Bist Senior Manager-Rating Operations Tel: 022-49294011 rating.desk@acuite.in

About Acuité Ratings & Research

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