

Press Release

Shree Sakthi Vinayagar Weaves Private Limited

D-U-N-S® Number: 85-856-2906

March 25, 2019



Rating Assigned

Total Bank Facilities Rated*	Rs. 16.00 Cr.
Long Term Rating	ACUITE BB- / Outlook: Stable
Short Term Rating	ACUITE A4+

* Refer Annexure for details

Rating Rationale

Acuite has assigned the long-term rating of '**ACUITE BB-**' (read as **ACUITE BB minus**) and short term rating of '**ACUITE A4+**' (read as **ACUITE A four plus**) on the Rs. 16.00 crore bank facilities of Shree Sakthi Vinayagar Weaves Private Limited. The outlook is '**Stable**'.

Incorporated in 2006, SVPL manufactures grey fabric by weaving viscose yarn and cotton yarn. The company's manufacturing facility is located at Pallipalayam in Erode (Tamil Nadu). The company has a power loom capacity of 315 looms and Air-jet looms capacity of 40 looms with windmills 0.75 MW.

Analytical Approach

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

Key Rating Drivers

Strengths

- **Established presence in the textile industry and vast promoter experience**

SVPL was established initially in 1970 as a family business and later incorporated as a private limited company in 2006. The promoters have more than three decades of experience in the textiles industry. The promoters have established relations with its customers and suppliers which has benefitted in terms of bagging new orders.

- **Location advantage**

The company's facility is located in the textile belt of Tamil Nadu in Erode which houses several spinning mills and fabric manufacturers and which provides easy access to raw material, labour, processing facilities and sales agents. Viscose, cotton and flux yarn are the primary raw materials of the company which are purchased majorly from Mothi Spinners Private Limited, a group entity located in Erode. The company sells its output to fabric processors and traders within Tamil Nadu.

- **Average financial risk profile**

The company has average financial risk profile marked by net worth of Rs.4.82 crore in FY2018 as compared to Rs.4.29 crore in FY2017. The debt to equity ratio stood at 2.48 times in FY2018 as against 0.78 times in FY2017. The total debt as on March 31, 2018 was Rs.11.94 crore, of which unsecured loans from directors/promoter consists of Rs.1.65 crore, long term debt consists of Rs.6.25 crore, current portion of long term debt consists of Rs.0.42 crore and working capital borrowings of Rs.3.62 crore. Interest Coverage Ratio (ICR) stood moderate at 2.16 times as on March 31, 2018 as compared to 1.39 times as on March 31, 2017. Total Outstanding Liability to Total Net Worth (TOL/TNW) stood at 7.50 times as on March 31, 2018 as against 3.05 times as on March 31, 2017. Acuite believes that the financial risk profile of the company will remain comfortable backed by comfortable net cash accruals and in the absence of any major debt funded capex.

Weaknesses

• High supplier concentration

The volatility associated with viscose and viscose flax yarn has been relatively less compared to cotton and cotton yarn prices. Although, the raw material prices are fairly stable, there is a risk of high supplier concentration with Mothi Spinners Private Limited, which is the major supplier of viscose to SVPL leading to limited pricing flexibility.

• Margins are thin and are susceptible to fluctuation in raw material prices

The margin in the weaving business is dependent primarily on the yarn purchase price where any steep fluctuation in yarn price, which mirrors the cotton price, will have a direct impact on the company's margins. While the yarn prices are volatile, realisation on sale of fabric is relatively more stable, exposing the company to adverse movement in prices.

• Intense competition in a highly fragmented industry structure

Weaving mills convert cotton, manmade, or blended yarns into woven fabrics. Unlike the handloom sector, the power loom sector uses power-driven shuttle looms; and a typical power loom unit has 10 to 50 looms. Thus, India's weaving sector is highly fragmented, small-scale, and labour-intensive. Further, with excess capacities available in weaving and processing sector, volatile raw material prices and limited inventory carrying capacity, the pricing power of weaving units is low resulting in weak profitability measures.

Liquidity Position:

The company has stretched liquidity marked by low net cash accruals to its working capital requirements. The company's operations are working capital intensive as marked by gross current asset (GCA) days of 180 in FY 2018 with high creditor days of 166 in FY 2018. This has led to higher reliance on working capital borrowings. The current ratio of SVPL stands at 0.94 times as on March 31, 2018.

Outlook: Stable

Acuite believes that SVPL will maintain a 'Stable' outlook over the medium term from its director's industry experience. The outlook may be revised to 'Positive' in case of significant growth in its revenues while maintaining its profitability. Conversely, the outlook may be revised to 'Negative' in case of any stretch in its working capital operations or larger than expected debt-funded capex leading to deterioration of its financial risk profile and liquidity.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	53.09	41.18	32.43
EBITDA	Rs. Cr.	2.29	0.99	0.96
PAT	Rs. Cr.	0.52	0.10	0.12
EBITDA Margin	(%)	4.32	2.41	2.97
PAT Margin	(%)	0.99	0.24	0.38
ROCE	(%)	14.95	11.05	22.30
Total Debt/Tangible Net Worth	Times	2.48	0.78	3.71
PBDIT/Interest	Times	2.16	1.39	1.36
Total Debt/PBDIT	Times	5.14	3.37	6.51
Gross Current Assets (Days)	Days	180	133	135

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
Term loans	Not Applicable	Not Applicable	Not Applicable	5.16	ACUITE BB- / Stable (Assigned)
Term loans	Not Applicable	Not Applicable	Not Applicable	0.59	ACUITE BB- / Stable (Assigned)
Term loans	Not Applicable	Not Applicable	Not Applicable	0.89	ACUITE BB- / Stable (Assigned)
Term loans	Not Applicable	Not Applicable	Not Applicable	2.39	ACUITE BB- / Stable (Assigned)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	4.90	ACUITE BB- / Stable (Assigned)
Proposed Bank facility	Not Applicable	Not Applicable	Not Applicable	1.75	ACUITE BB- / Stable (Assigned)
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	0.32	ACUITE A4+ (Assigned)

Contacts

Analytical	Rating Desk
<p>Aditya Gupta Head - Corporate and Infrastructure Sector Ratings Tel: 022-49294041 aditya.gupta@acuite.in</p> <p>Ayushi Rathore Analyst - Rating Operations Tel: 02249294055 ayushi.rathore@acuiterratings.in</p>	<p>Varsha Bist Manager - Rating Desk Tel: 022-67141160 rating.desk@acuite.in</p>

About Acuité Ratings & Research:

Acuité 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 Acuité 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. Acuité 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, Acuité, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. Acuité 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. Acuité 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 Acuité.*