Acuite RATINGS & RESEARCH

Press Release

Saravanagiri Spinning Mills Private Limited

September 05, 2019

Rating Assigned

Total Bank Facilities Rated*	Rs.42.00 Cr.
Long Term Rating	ACUITE BB+/Stable (Assigned)
Short Term Rating	ACUITE A4+ (Assigned)

** Refer Annexure for details*

Rating Rationale

Acuité has assigned long-term rating of **'ACUITE BB+' (read as ACUITE double B plus)** and the short-term rating of **'ACUITE A4+' (read as ACUITE A four plus) on** the Rs.42.00 crore bank facilities of SARAVANAGIRI SPINNING MILLS PRIVATE LIMITED (SSPL). The outlook is **'Stable'**.

Saravanagiri Spinning Mills Private Limited (SSPL), Erode-based company incorporated in 2013, is engaged in manufacturing of viscose yarn. It has a manufacturing unit in Pallipalyam, Erode, and Tamil Nadu, which is spread over 10.5 acres of land. Currently, the company has an installed capacity of 12,768 spindles with two vortex machines. The company also owns a two mega-watt (MW) wind mill. The company is promoted by R.K Sivananthan, who has nearly 15 years of experience in the industry.

Analytical Approach

Acuité has considered the standalone business and financial risk profile of Saravanagiri Spinning Mills Private Limited to arrive at this rating.

Key Rating Drivers:

Strengths

- **Highly experienced management**

  Mr. R.S. Sivananthan, Promoter Director, has experience of over two decades in the textile industry. The company has a competent management supported by a team of well qualified and experienced second line personnel. The management over a period backward integrated its operations by setting up two MW wind mill power to support its power requirement; further, it has added vortex machines to improve the quality and productivity and wherein they yielded the results. Its operating margins have improved to 18.9 per cent in FY2019 against 12.4 per cent in FY2017 and muted growth in revenues during the same period. Acuité believes that regular capex to enhance the productivity and quality and cost optimization steps by the promoters is expected to support in maintaining its business risk profile over the medium term.

- **Moderate Financial Risk Profile**

  The financial risk profile is moderate marked by moderate capital structure and debt protection metrics. The net worth is moderate at Rs.20.04 crore in FY2019 as against Rs.14.51 crore in FY2018 with an infusion of Rs. 3.20 crore. The gearing has improved to 2.19 times as on March 31, 2019 from 3.00 times as on March, 2018. Further, its TOL/TNW is improved to 2.67 times in FY2019 from 3.23 times in FY2018. The company incurred capex of Rs. 9.19 crore in FY2019 to expand its scale of operations and going forward the company is expected to incur about Rs. 3.00 crore of capex in medium term. SSPL's cash accruals over the next two years through 2021 are estimated to remain in the range of Rs.6.50 crore - Rs. 7.0 crore, which are comfortable to service its repayment obligations of Rs. 4.50 crore. The revenues of the company increased to Rs.56.14 crore during 2018-19, while its operating margins improved to18.86 per cent. The moderate profitability levels coupled with moderate debt levels has led to moderate debt protection measures. The NCA/TD and interest coverage ratio for FY 2019 were moderate at 0.12 per cent and 2.28 times, respectively. Acuité expects the financial risk profile to remain moderate over the medium term on account of improving debt protection matrices and net cash accruals.

Weaknesses

- **Moderate working capital management**
  The company has moderate working capital operations as evident from its Gross Current Assets (GCA) of 147 days as on March 31, 2019 as against 118 days as on March 31, 2018 and 92 in FY2017; deterioration in the GCA is owing to high inventory and receivable days. The company is currently maintaining 73 days inventory levels, and offers credit of about two months to its clientele; resulting in receivable days of about 43 as on March 31, 2019 (38 days in FY2018). Working capital intensive operations lead to high utilization of its working capital limits at about 97 per cent over the past six months ended July 2019. Acuité expects the operations of the company to remain moderately working capital intensive on account of the high inventory levels maintained by the company and high GCA days.

- **Modest Scale of operations**
  The company's revenues are stagnant for the past three years at about Rs. 55.00 crore, with revenues of Rs. 56.14 crore in FY2019. Its capacity is modest with spindleage of 12,768 and two vortex machines constraining the growth in the revenues, though the plant is operated at about 90 per cent capacity. It incurred capex of about Rs.9.19 crore over the past two years, primarily for captive power and machinery. With no significant capex plans to enhance the spinning capacity, the revenues are expected to be range bound of Rs.65.00 crore– Rs. 70.00 crore over the medium term. Enhancing its capacity, while sustaining the revenues and profitability, are key rating sensitivity factors over the medium term.

Liquidity Position:

SSPL has adequate liquidity marked by moderate net cash accruals to its maturing debt obligations. SSPL generated cash accruals of Rs.5.26 crore, while its maturing debt obligations are Rs.3.90 crore in FY2019. The cash accruals of the SSPL are estimated to remain around Rs.6.50 crore – Rs. 7.30 crore during 2020-22, while its repayment obligations are estimated to be around Rs.4.50 crore over the medium term. SSPL's operations are relatively moderate working capital intensive as marked by Gross Current Assets (GCA) of 147 days in FY 2019. The high reliance on working capital borrowings, lead to high utilisation of its working capital limits at 97 per cent during the last 6-month period ended July 2019. The current ratio of SSPL is weak stood at 0.98 times as on March 31, 2019 a slight decline from 1.13 times in FY2018.

Outlook: Stable

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

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	56.14	53.07	54.69
EBITDA	Rs. Cr.	10.59	7.70	6.81
PAT	Rs. Cr.	1.69	0.87	0.43
EBITDA Margin	(%)	18.86	14.51	12.44
PAT Margin	(%)	3.01	1.65	0.78
ROCE	(%)	11.57	9.59	18.60
Total Debt/Tangible Net Worth	Times	2.19	3.00	3.18
PBDIT/Interest	Times	2.28	2.11	1.97
Total Debt/PBDIT	Times	4.09	5.63	4.87
Gross Current Assets (Days)	Days	147	118	92

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-17.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	31.50	ACUITE BB+/Stable (Assigned)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	9.00	ACUITE BB+/Stable (Assigned)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	1.50	ACUITE A4+ (Assigned)

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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.