

Press Release

Saravanagiri Spinning Mills Private Limited

December 02, 2020

Rating Reaffirmed and Assigned



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

* Refer Annexure for details

Rating Rationale

Acuite has reaffirmed and assigned the long-term rating of '**ACUITE BB+**' (read as **ACUITE double B plus**) and the reaffirmed the short term rating of '**ACUITE A4+**' (read as **ACUITE A four plus**) on the Rs.42.00 crore bank facilities of Saravanagiri Spinning Mill Private Limited (SSMPL). The outlook is 'Stable'.

About the company

Saravanagiri Spinning Mill Private Limited (formerly known as Saravanagiri Spinning Mill Limited), an Erode-based company, incorporated in 2013, is engaged in manufacturing of 100 percent viscose yarn. The company has the capacity of 12,768 spindles and 2 vortex machines. SSMPL also owns a 2 Mega-watt (MW) windmill. SSMPL is promoted by R.K Sivananthan and his family members.

The rating reaffirmation on the bank facilities of SSMPL factors in its established track record of operations, experienced management and moderate working capital cycle. These rating strengths are partially offset by its moderate financial risk profile and susceptibility to fluctuation in raw material prices and high supplier concentration risk.

Analytical Approach

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

Key Rating Drivers

Strengths

• Experienced management and improving scale of operations

SSMPL promoted by Mr. R.K Sivananthan along with his family members. Mr. R.K Sivananthan is Managing Director of the company, who has more than 3 decades of experience in the textile industry. The promoters' extensive experience and long track record have helped the company in building established relations with its customers and suppliers over the years. The aforesaid factors have helped the company in improving its revenues from Rs.53.07 Cr in FY2018 to Rs.56.14 Cr in FY2019 and Rs.68.28 Cr in FY2020. The improvement in revenue is on account of increase in capacity utilization. The company operated at 96 percent utilization capacity in FY2020 as against 93 percent in FY2019. SSMPL generated revenue of Rs.22.98 Cr for 7M of FY2021 until October 2020 month which was lower by 45 percent as compared to the same period last year. The operating margins stood at 17.85 percent in FY2020 as against 18.86 percent in FY2019. The decline in operating margins is on account of higher power cost resulting from lower power generated from its captive windmill due to adverse climatic conditions. Out of the total power cost in FY2020, the captive power consumption declined from 63 percent in FY2019 to 44 percent in FY2019. Acuite believes that SSMPL will continue to benefit from its experienced management over the medium term.

• Moderate working capital management

The working capital management of SSMPL remained moderate, evident from its GCA days of 127 days as on March 31, 2020 as against 134 days in FY2019. The inventory days stood at 68 days and 73 days as on March 31, 2020 and 2019, respectively. Usually, the company offers 1-2 months of credit period to its customers. The debtor days stood at 42 days and 43 days as on March 31, 2020 and 2019, respectively. SSMPL procures Viscose Stable Fiber (VSF) from only one leading player, i.e. Grasim industries limited, where the payment is made within a weeks' time. The creditor days stood at 4 days and 7 days as on March 31, 2020 and 2019, respectively. The bank lines remained utilized around 94

percent for the last six months ended October 2020. Acuité believes that SSMPL's working capital cycle will remain moderate over the medium term.

Weaknesses

• Moderate financial risk profile

The company's financial risk profile is moderate marked by moderate capital structure and debt protection metrics. The networth stood at Rs.21.33 Cr as on March 31, 2020 as against Rs.20.04 Cr as on March 31, 2019. The debt - equity (gearing) ratio stood at 2.22 times as on March 31, 2020 as against 2.19 times as on March 31, 2019. The gearing deteriorated marginally on account of increase in debt levels. Interest Coverage Ratio (ICR) stood at 2.10 times for FY2020 as against 2.28 times for FY2019. The marginal deterioration in ICR is due to increase in interest expense. Debt Service Coverage Ratio (DSCR) stood at 1.19 times as on March 31, 2020 as against 1.30 times as on March 31, 2019. TOL/TNW stood improved from 2.67 times as on March 31, 2019 to 2.43 times as on March 31, 2020. Acuité believes that the financial profile of the SSMPL is expected to be at similar levels over the medium term owing to moderate accretion to reserves and absence of any significant debt-funded capex plans.

• Susceptibility to fluctuation in raw material prices and high supplier concentration risk

SSMPL's profitable margins are susceptible to fluctuations in the prices of its major raw materials such as viscose staple fiber. The prices of viscose yarn are influenced by movement in prices of its substitutes, i.e. cotton and polyester staple fibers. The company sources the entire part of viscose staple fiber from Grasim Industries, which is the major supplier of viscose in India, leading to limited pricing flexibility. Acuité believes that despite SSMPL's established raw material linkages and possessing Grasim Industries Limited as a vintage supplier, SSMPL is exposed to high supplier concentration risk.

Rating Sensitivities

- Lower-than-expected revenue and profitability
- Any further deterioration in working capital management leading to deterioration in financial risk profile and liquidity

Liquidity Position: Adequate

The liquidity position of the company remained adequate with adequate net cash accruals to service its debt obligations. The NCA's stood moderate and remained in the range of Rs.3.68-5.79 Cr through FY2018-2020 against the repayment obligation of Rs.2.93-3.90 Cr. The NCA's are expected to be in the range of Rs.5.00-7.30 Cr through FY21-23 against the repayment obligation of Rs.2.40-5.00 Cr. The current ratio stood at 1.43 times as on March 31, 2020. The cash and bank balance stood at Rs.0.50 Cr as on March 31, 2020. The working capital limits are almost 94 percent utilized for the last six months ended in October 2020. Acuité believes that the liquidity profile continues to be adequate, supported by accruals and moderate working capital management.

Outlook: Stable

Acuité believes that SSMPL will continue to benefit over the medium term due to its experienced management and established relationships with its suppliers and customers. The outlook may be revised to 'Positive', in case of higher-than-expected revenues and profitability with improvement in working capital management. Conversely, the outlook may be revised to 'Negative' in case SSMPL registers lower-than-expected decline in revenues and profitability or any significant stretch in its working capital management or deterioration of its financial risk profile and liquidity.

About the Rated Entity - Key Financials

| | Unit | FY20 (Actual) | FY19 (Actual) |
|-------------------------------|---------|---------------|---------------|
| Operating Income | Rs. Cr. | 68.28 | 56.14 |
| PAT | Rs. Cr. | 1.29 | 1.69 |
| PAT Margin | (%) | 1.89 | 3.01 |
| Total Debt/Tangible Net Worth | Times | 2.22 | 2.19 |
| PBDIT/Interest | Times | 2.10 | 2.28 |

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

BRICKWORK RATINGS, vide its press release dated Mar 03, 2020 had denoted the rating of Saravanagiri Spinning Mills Private Limited as 'BWR BB-/A4; ISSUER NOT COOPERATING' on account of lack of adequate information required for monitoring of ratings. The earlier rating, however, stood at 'BWR BB/Stable/A4' vide its press release dated September 17, 2018.

Any Material Covenants

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>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Upto last three years)

| Date | Name of Instrument / Facilities | Term | Amount (Rs. Cr) | Ratings/Outlook |
|------------|---------------------------------|------------|-----------------|-------------------------------|
| 05-Sept-19 | Term Loan | Long Term | 31.50 | ACUITE BB+/ Stable (Assigned) |
| | Cash Credit | Long Term | 9.00 | ACUITE BB+/ Stable (Assigned) |
| | Bank Guarantee | Short Term | 1.50 | ACUITE A4+ (Assigned) |

*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 | 11.00 | ACUITE BB+/ Stable (Reaffirmed) |
| Term Loan | Apr-2016 | 11.50 | Mar-2025 | 13.00 | ACUITE BB+/ Stable (Reaffirmed) |
| Term Loan | Oct-2018 | 11.50 | Aug-2027 | 13.19 | ACUITE BB+/ Stable (Reaffirmed) |
| Bank Guarantee | Not Applicable | Not Applicable | Not Applicable | 0.89 | ACUITE A4+ (Reaffirmed) |
| Proposed Bank Facility | Not Applicable | Not Applicable | Not Applicable | 3.92 | ACUITE BB+/ Stable (Assigned) |

Contacts

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About Acuité Ratings & Research:

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