

Press Release

Sri Vignesh Weaves

December 12, 2019

Rating Assigned



Total Bank Facilities Rated*	Rs. 8.00 Cr.
Long Term Rating	ACUITE BB- / Outlook: Stable
Short Term Rating	ACUITE A4+

* Refer Annexure for details

Rating Rationale

Acuite has assigned 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. 8.00 crore bank facilities of SRI VIGNESH WEAVES. The outlook is '**Stable**'.

Sri Vignesh Weaves (SV), a Tamil Nadu based proprietary firm engaged in weaving of fabrics and it is promoted by Mr. Madhan Vignesh. The firm was established in 2018 and currently has 14 power looms with weaving capacity of 8500 meters/ day.

Analytical Approach

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

Key Rating Drivers

Strengths

- **Established presence in the textile industry**

Proprietor Mr. Madhan Vignesh's family members have more than two decades of experience in the textile industry. His father Mr. Muthusamy Chandrasekharan is the Director of Mothi Spinner Private Limited (ACUITE A-/Stable/ACUITE A2+). The experience of the promoter's family members has helped the firm maintain relationship with its customers and suppliers. Acuite believes that the support proprietor has from his family members would help the firm in improving firm's business profile and its ability to scale up over the medium term.

Weaknesses

- **Nascent Stage of Operations**

SV has commenced its operations in October 2018 and has registered Rs. 6.49 Crore of revenue in FY2019. Going forward, with full scale of operations, the firm is expected to scale up its revenues. Acuite believes that stabilisation of operations and improvement of orders is the key rating sensitivity factors for the revenue profile and cash flows.

- **Weak Financial Risk Profile**

The financial risk profile of the firm is weak marked by high gearing and total outside liabilities to total net worth (TOL/TNW). Its gearing and TOL/TNW are high at 8.78 and 18.10 times in FY2019. Its debt protection metrics of interest coverage ratio and net cash accruals to total debt (NCA/TD) are moderate at about 2.60 times and 0.11 times in FY2019. The firm has planned capex to install machinery with project cost of Rs. 10.25 cr out of which Rs. 7.50 cr is funded through term loan and rest through internal accruals or capital infusion. Acuite believes modest accruals and repayment obligations, the financial risk profile is expected to be at similar levels over the medium term.

Rating Sensitivities

- Any deterioration in working capital and liquidity
- Substantial growth in revenues while improving profitability margins

Liquidity Position: Stretched

The liquidity of the company is stretched as the company is did a capex of Rs 6.64 Crore for building and acquiring the machinery. This is capex funded by the term loan of Rs. 4.60 Crore and the repayments has started in FY2020 for the same. Cash accruals are estimated to remain around Rs.1.20 – 4.00 crore during 2020-22, while its repayment obligations are expected to be Rs. 0.60-1.80 crore; which gives moderate comfort for the incremental working capital requirements in the medium term.

Material Covenants:

None

Outlook: Stable

Acuite believes that SV will maintain a 'Stable' outlook over the medium term from its proprietor'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)
Operating Income	Rs. Cr.	6.49	-
PAT	Rs. Cr.	0.11	-
PAT Margin	(%)	1.64	-
Total Debt/Tangible Net Worth	Times	8.78	-
PBDIT/Interest	Times	2.60	-

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.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	2.00	ACUITE BB-/ Stable
Term loans	Not Applicable	Not Applicable	Not Applicable	1.00	ACUITE BB- / Stable
Term loans	Not Applicable	Not Applicable	Not Applicable	3.60	ACUITE BB- / Stable
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	0.65	ACUITE A4+
Proposed	Not Applicable	Not Applicable	Not Applicable	0.75	ACUITE A4+

Contacts

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About Acuité Ratings & Research:

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