

Press Release

Sri Thirumalai Balaji Spinning Mills

February 25, 2020

Rating Assigned



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

* Refer Annexure for details

Rating Rationale

Acuite has assigned its long-term rating of '**ACUITE B**' (read as **ACUITE B**) and short-term rating of '**ACUITE A4**' (read as **ACUITE A four**) on the Rs.16.00 crore bank facilities of Sri Thirumalai Balaji Spinning Mills (STBSM). The outlook is '**Stable**'.

Tamil Nadu based Sri Thirumalai Balaji Spinning Mills (STBSM) was established in the year 2015 as a partnership firm and started its commercial operations in the year 2018. STBSM is engaged in manufacturing of cotton yarn and viscose yarn. The manufacturing unit is located at Erode and has 10080 spindles and the count ranging from 30-40s.

Analytical Approach

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

Key Rating Drivers

Strengths

- **Experienced management and increasing scale of operations**

STBSM is promoted by Mr. M Dinesh Kumar and Mr. M. Vajravel who boasts a decade of experience in textile industry and another partners offers more than two decades of experience and expertise in textile industry. The firm started its commercial operations from April 2018. STBSM reported revenues of Rs.35.61 crore for FY2019 as against Rs.2.95 crore for FY 2018.

Acuite believes that the firm will continue to sustain its existing business profile on the back of experienced management.

Weaknesses

- **Weak Financial Risk profile**

The firm has weak financial risk profile on account of continuous losses in FY2018 and FY2019. The net worth levels of the firm stood negative at Rs.1.04 crore as on 31 March 2019. The total debt of Rs.22.79 crore as on 31 March 2019 consists of long term debt of Rs.15.72 crore, unsecured loans of Rs.3.28 crore and short term debt of Rs.3.79 crore. The debt protection matrices stood moderate with interest coverage ratio (ICR) of Rs.1.52 times for FY2019.

Acuite believes that with expected improvement in revenues and moderate accruals, the financial risk profile is expected to improve over the medium term.

- **Susceptible to changes in input prices**

Operating margins are susceptible to changes in cotton and yarn prices which are highly volatile and commoditized product. Cotton being a seasonal crop, the production of the same is highly dependent upon the monsoon. Thus, inadequate rainfall affects the availability of cotton in adverse weather conditions. Furthermore, any abrupt change in cotton prices due to supply-demand scenario and government regulations of changes in Minimum Support Price (MSP) can lead to distortion of prices and affect the profitability of players across the cotton value chain

• Intense competition and highly fragmented

The firm operates in a highly competitive and highly fragmented textile industry and faces competition from established brands as well as unorganized players. This impacts the bargaining power of the firm and margins, thereof.

Rating Sensitivity factor

- Substantial and sustained growth in revenues
- Timely infusion of the funds by partners to service its debt obligations

Liquidity Position: Stretched

STBSM has stretched liquidity marked by high bank limit utilization at about 87 percent. STBSM generated cash accruals of Rs.1.01 crore for FY2019 with a current portion of long term debt of Rs.3.16 crore for FY2019. The partners have brought the unsecured loans in order to service their debt obligations. The cash accruals are estimated at Rs.1.50 to 1.75 crore during the medium term, while its maturing debt obligations will be in the range of Rs.3.16 crore over the same period. The company's current ratio stood at 0.98 times as on March 31, 2019. Acuite believes that the liquidity of the firm is likely to remain stretched over the medium term and timely funds infusion by the partners to service its debt obligations will be a key rating sensitivity.

Material Covenants

None

Outlook: Stable

Acuite believes that the outlook on STBSM will remain 'Stable' over the medium term on the back of experience of management. The outlook may be revised to 'Positive' in case of sustained increase in operating income and profitability while improving its capital structure. Conversely, the outlook may be revised to 'Negative' in case of any further stretch in its working capital cycle 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.	35.61	2.95
PAT	Rs. Cr.	(1.47)	(2.74)
PAT Margin	(%)	(4.13)	(93.01)
Total Debt/Tangible Net Worth	Times	(47.94)	25.96
PBDIT/Interest	Times	1.52	(0.74)

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

None

Any other information

None

Applicable Criteria

- 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>
- Default Recognition: <https://www.acuite.in/view-rating-criteria-52.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/criteria-complexity-levels.htm>

*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	4.00	ACUITE B/Stable
Term Loan	July 2017	Not Applicable	August 2024	11.25	ACUITE B/Stable
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	0.75	ACUITE A4

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About Acuité Ratings & Research:

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