

Press Release

Sri Thirumalai Balaji Spinning Mills

March 03, 2021



Rating Withdrawn

| | |
|-------------------------------------|--------------------------|
| Total Bank Facilities Rated* | Rs.16.00 Cr. |
| Long Term Rating | ACUITE B (Withdrawn) |
| Short Term Rating | ACUITE A4 (Withdrawn) |

* Refer Annexure for details

Rating Rationale

Acuité has reviewed and withdrawn the long-term rating of '**ACUITE B**' (**read as ACUITE single B**) and the short term rating of '**ACUITE A4**' (**read as ACUITE A four**) on the Rs.16.00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. The rating is in accordance with Acuité's policy on withdrawal of rating and on account of request received from the company and no objection certificate received from the banker.

About the company

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 the 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

Acuité has considered the 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 has a decade of experience in textile industry and another partner offers more than two decades of experience and expertise in textile industry. The firm started its commercial operations in April 2018. STBSM reported revenues of Rs.36.03 Cr for FY2020 as against Rs.35.61 Cr for FY2019 as against Rs.2.95 Cr for FY 2018. Acuité believes that the firm will continue to sustain its existing business profile on the back of experienced management.

Weaknesses

- **Below average financial risk profile**

The financial risk profile of the company has remained below average with modest networth, high gearing and moderate debt protection metrics. Networth for FY2020 stood at Rs.1.87 Cr as against (0.48) in FY2019. The improvement is on account of modest accretion to reserves and increase in partners' capital. The gearing stood high at 9.36 times as on March 31, 2020 as against (47.94) times as on March 31, 2019. Debt protection metrics Interest Coverage Ratio and Debt Service Coverage Ratio stood at 2.64 times and 1.52 times as on March 31, 2020 and 2019, respectively.

- **Susceptible to changes in raw material 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 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 Sensitivities

- Any decline in 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 firm remains adequate with adequate net cash accruals to service its debt obligations. The net cash accruals for FY2020 stood at Rs.3.65 Cr against the repayment obligation of Rs.3.16 Cr. The current ratio stood at 0.87 times as on March 31, 2020. The cash and bank balance stood at Rs.0.66 Cr as on March 31, 2020. Acuité believes that the liquidity profile continues to be adequate, supported by accruals and efficient working capital management.

About the Rated Entity - Key Financials

| | Unit | FY20 (Actual) | FY19 (Actual) |
|-------------------------------|---------|---------------|---------------|
| Operating Income | Rs. Cr. | 36.03 | 35.61 |
| PAT | Rs. Cr. | 1.51 | (1.47) |
| PAT Margin | (%) | 4.18 | (4.13) |
| Total Debt/Tangible Net Worth | Times | 9.36 | (47.94) |
| PBDIT/Interest | Times | 2.64 | 1.52 |

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

None

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 |
|-------------|---------------------------------|------------|-----------------|----------------------------|
| 25-Feb-2020 | Cash Credit | Long Term | 4.00 | ACUITE B/Stable (Assigned) |
| | Term Loan | Long Term | 11.25 | ACUITE B/Stable (Assigned) |
| | Bank Guarantee | Short Term | 0.75 | 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 | 4.00 | ACUITE B (Withdrawn) |
| Term Loan | July 2017 | 11.70 | Aug 2024 | 11.25 | ACUITE B (Withdrawn) |
| Bank Guarantee | Not Applicable | Not Applicable | Not Applicable | 0.75 | ACUITE A4 (Withdrawn) |

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About Acuité Ratings & Research:

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