

Press Release

Srinath Weaving Mills LLP

January 22, 2021

Rating Assigned



Total Bank Facilities Rated*	Rs. 17.00 Cr.
Long Term Rating	ACUITE BB / Outlook: Stable (Assigned)

* Refer Annexure for details

Rating Rationale

Acuite has assigned the long-term rating of '**ACUITE BB**' (read as **ACUITE Double B**) on the Rs. 17.00 crore bank facilities of Srinath Weaving Mills LLP (SWM). The outlook is '**Stable**'.

Srinath Weaving Mills LLP was incorporated as a partnership firm at Palladam in Tirupur district of Tamil Nadu and promoted by Mr. Rajagopal, Pawan Choudhary, Mr. Dinesh Choudhary and Mrs. Manju Choudhary in the year 2018. Mr. Rajagopal is also the promoter of KRG Textile and Sizing Mills and has been in the business for the past 20 years. Mr. Pawan for the past 25 years has been an agent in trading of grey fabric and has the expertise in marketing the products manufactured by the firm. SWM has installed 48 Air jet looms manufacturing Grey Fabric with a capacity of 10 lakh meters per month.

Analytical Approach

Acuite has taken the standalone view of the business and financial risk profile of SWM to arrive at the rating.

Key Rating Drivers

Strengths

- **Experienced promoters and ample production capacity**

Though SWM was established in 2018, the promoters have more than two decades of experience in the industry. This has helped the firm to garner business of ~Rs 50 Cr in second year of operation. Mr. Rajagopal is also the promoter of KRG Textile and Sizing Mills and has been in the business for past 20 years. Mr. Pawan for the past 25 years has been an agent in trading, has experience in marketing of grey fabric. Further, the company has ample production capacity with already installed 48 air jet looms which can manufacture up to 10 lakh meters of grey fabric per month. The proposed addition of additional 24 air jet looms is expected to increase that capacity to around 14 lakh meters per month. Acuite believes that, the experience of the promoters will help SWM in garnering more business and help in improving sale of operations on long run.

- **Healthy profitability**

In a short span of operation, the company has managed to achieve healthy EBITDA margins in the range of 14-16%. Though the margins deteriorated in FY20, which was as a result of increased raw material cost. The increase in cost was as a result of higher yarn prices. Further, the PAT margins was in the range of 6.44-6.66% in past 2 years of operation. In addition, the firm is completing the installation of solar power plant with capacity of 2.6 MW, which would be used entirely for captive consumption. This is expected to bring down the power cost in future, thereby improving the margin. Acuite believes that, healthy profitability will help in maintaining a comfortable capital structure and will help fund future expansion plans.

- **Moderate financial risk profile and coverage metrics**

Being the first few years of operation, the firm's gearing was high at 2.64x at FYE20 as a result of debt taken up for putting up the facility and a reduction in capital in FY20 as a result of reconstitution and exit of some partners. The coverage metrics were comfortable with adjusted DSCR of 1.05x in FY20 while the 2.20x in FY19. This was primarily as a result of higher repayments made by the company in FY20. In FY20, the company made net repayments of Rs 4.93 Cr which resulted in advance payments in the term facilities. Further, the interest coverage improved from 2.20x in FY19 to 3.55x in FY20 primarily as a result of improved operating performance. Acuite expect the firm to sustain its healthy debt protection metrics.

Weaknesses

- Highly fragmented industry structure and susceptibility to raw material cost**

The weaving industry is highly commoditized and fragmented with significant competition from the several small and medium-sized players limiting the scope for expansion in its operating margin. Further to this, the firm's revenue growth will be susceptible to the global demand-supply and pricing scenario. Also, the firm has no control on raw material prices and the margins are always susceptible to fluctuation in raw material costs. Acuite believes that any adverse movement in Indian export of apparels/fabric may exert pressure on the firm's revenue and profitability.

- Nascent stages of operation and low product differentiation:**

The firm was established in 2018 and is engaged in manufacturing of grey fabric with total revenue of Rs 50.02 Cr in FY20. Despite this the year over growth in revenue in FY20 compared to FY19 was 30.15%. The firm is still in the process of establishing relationships with customers and suppliers. Further, there is limited product diversification and as such there is no scope for differential pricing.

Liquidity Profile: Adequate

The liquidity position of the firm is moderate with unencumbered cash balance with the firm was Rs 0.61 Cr at FYE20 and the net cash accruals was strong considering the fact that, it is the first few years of operation of the firm. The operations of the business is working capital intensive as can be observed from the utilization of the fund based facilities which were on higher side with peak utilization in the range of 69% to 102% over the past 6 months which can be largely attributed to the onset of pandemic. While the Gross Current Assets days improved from 145 days in FY19 to 94 days in FY20. The cash generation from the operations was strong and the net cash accruals were Rs 5.30 Cr and Rs 3.46 Cr in FY20 and FY19 respectively. The cash generation far exceeded the repayments per the amortization schedule of the term loans. Acuite expects the firm to maintain healthy net cash accruals in future.

Rating Sensitivities

- Improvement in scale of operations
- Improvement in working capital cycle leading to better liquidity position

Outlook: Stable

Acuite believes that SWM will maintain stable credit profile on account of stable operating performance. The outlook may be revised to 'Positive' in case of significant improvement in scale of operations while maintaining the financial profile. Conversely, the outlook may be revised to 'Negative' in case of significant elongation of working capital cycle.

About the Rated Entity - Key Financials

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	50.02	38.43
PAT	Rs. Cr.	3.22	2.56
PAT Margin	(%)	6.44	6.66
Total Debt/Tangible Net Worth	Times	2.64	2.40
PBDIT/Interest	Times	3.55	2.20

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

None

Any other information

Not Applicable

Any Material Covenants

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)

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 Loan	29 Oct 2017	Not Applicable	29 Jan 2026	11.00	ACUITE BB/ Stable (Assigned)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	6.00	ACUITE BB/ Stable (Assigned)

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