

Press Release

Srinath Weaving Mills LLP

April 22, 2022

Rating Reaffirmed



Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	17.00	ACUITE BB Stable Reaffirmed	-
Total Outstanding Quantum (Rs. Cr)	17.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has reaffirmed 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'.

Rationale for rating reaffirmation

The rating reaffirmation takes cognizance of firm's revenue growth. Its revenue increased to Rs. 80.Cr. in FY2022 (Provisional.) against Rs. 39.23 Cr. in FY2021, marking a revenue growth of more than 100 percent. The reaffirmation also takes comfort from the partners' extensive experience in the segment and infusion of unsecured loans to support the firm's operations. However, the ratings are constrained on account of deterioration in operating margins and stretched liquidity profile.

About the Company

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 72 air jet looms manufacturing Grey fabric with a capacity of 14 lakh meters per month

Analytical Approach

Acuite has considered 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. 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 addition of another 24 air jet looms is expected to increase that capacity to around 14 lakh meters per month.

Acuité believes that, the experience of the promoters will help SWM in garnering more business and help in improving sale of operations on long run.

Improved operating income albeit moderate operating margin

SWM is into manufacturing of Rayon filament fabrics widely used in suiting and textile industry. Indian textile has been one of the worst hit sectors during COVID-19 crisis, which also affected SWM's revenue in FY2021. The firm's revenue had deteriorated to Rs. Rs.39.23 Cr. for FY2021 as compared to Rs. 50.02 Cr. in FY2020 as the factory was not operational during H1FY21 due to lockdown. However, during FY2022 with the textile industry witnessing recovery in the demand post normalizing of the operating environment, firm reported revenues of Rs.80Cr. FY2022 (Provisional). However, the operating margins have deteriorated during the same period due to higher raw material cost and firm's limited ability to pass the costs to its customers. The operating margin stood at around 6.30% during FY2022(Provisional) against 9.69% during FY2021. Further, profitability margin deteriorated and stood at 0.46% during FY2022 (Provisional) against 2.53% in FY2021 owing to the additional interest costs on the capex borrowings and additional depreciation expenses. The firm has commissioned a 2.6MW solar plant in FY2022 which is expected to reduce the total power cost and further help in improving the operating margins in the coming years.

Acuite believes SWM's ability to maintain its scale of operations without further deterioration in the operating profitability will remain a key rating sensitivity factor.

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 is susceptible to the global textile 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.

Acuité believes that any adverse movement in the exports of apparels/fabrics may exert pressure on the firm's revenue and profitability.

Moderate financial risk profile

SWM has a moderate financial risk profile marked by high gearing and modest coverage indicators. The firm's gearing has been high as a result of debt availed for putting up the facility and withdrawal of capital in FY2020 as a result of reconstitution of the partnership and exit of some partners. Further, in FY2021 and FY2022 the firm has availed additional term loans in order to install solar plant and also to increase the installed capacity further. This has increased the adjusted gearing to 3.73 times as on March 31st, 2022 against 2.58 times as on March 31st 2021. Further, the lower profitability has resulted in stretched NCA/TD and poor Debt/EBITDA which stood at 0.11 times and 5.14 times as on March 31st 2021 against 0.29 times and 2.51 times in March 31st, 2020 respectively. Theses have further deteriorated and stood at 0.06 times and 6.80 times as on March 31st, 2022. However, in order to mitigate any adverse effect on the financial risk profile, the firm's partners have infused funds in the form of unsecured loans to the tune of Rs.5.60Cr. during FY2022 which has exerted marginal pressure on the coverage indicators. The DSCR and Interest coverage stood at 1.80 times and 1.86 times for FY2022(Provisional.) against 2.20 times and 2.12 times in FY2021.

Acuite believes any further borrowing in the absence of adequate coverage will remain a key rating sensitivity factor.

Rating Sensitivities

- Sustaining growth in revenue while maintaining stable operating & profitability margins

Any further borrowing which may significantly affect the financial risk profile

Material covenants

None

Liquidity Position: Stretched

The liquidity position of the firm is stretched with unencumbered cash balances at Rs 0.10 Cr as at March 31, 2021 and the net cash accruals low at Rs.2.15 Cr. The cash balances have further deteriorated during FY2022(Provisional.) and stood at Rs.0.07 Cr. Decline in firm's profitability has led to decline in its net cash accruals which stood at Rs.2.21Cr during FY2022(Provisional.) against obligations close to Rs.4.00Cr. However, in order to manage the cash accruals vis-a-vis repayment gap the firm has infused USL to the tune of Rs.5.60Cr. Further, the working capital utilisations were in the range of 90-95% over the latest 6 months ended Feb 2022.

Outlook: Stable

Acuité believes that SWM will maintain a stable outlook on account of improvement in the operating income, improved working capital cycle and moderate coverage indicators during FY2022(Prov.) The outlook may be revised to 'Positive' in case of continued improvement in scale of operations while achieving sustainable growth in the profitability and financial risk profile. Conversely, the outlook may be revised to 'Negative' in case of further deterioration in the profitability significantly affecting the liquidity profile of the firm.

Other Factors affecting Rating

Not Applicable

Key Financials

Particulars	Unit	FY 21 (Actual)	FY 20 (Actual)
Operating Income	Rs. Cr.	39.23	50.02
PAT	Rs. Cr.	0.99	3.22
PAT Margin	(%)	2.53	6.44
Total Debt/Tangible Net Worth	Times	2.58	2.64
PBDIT/Interest	Times	2.20	3.55

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

Not Applicable

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Entities In Manufacturing Sector -<https://www.acuite.in/view-rating-criteria-59.htm>
- Application Of 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

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
22 Jan 2021	Cash Credit	Long Term	6.00	ACUITE BB Stable (Assigned)
	Term Loan	Long Term	11.00	ACUITE BB Stable (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Canara Bank	Not Applicable	Cash Credit	Not Applicable	10.25	Not Applicable	6.00	ACUITE BB Stable Reaffirmed
Canara Bank	Not Applicable	Term Loan	29-10-2017	10.25	29-01-2026	11.00	ACUITE BB Stable Reaffirmed

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About Acuité Ratings & Research

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