

Press Release

Sri Murugan Textiles

February 19, 2021



Rating Assigned

Total Bank Facilities Rated*	Rs. 22.07 Cr.
Long Term Rating	ACUITE B+/ Outlook: Stable (Assigned)
Short Term Rating	ACUITE A4 (Assigned)

* Refer Annexure for details

Rating Rationale

Acuité has assigned its long-term rating of '**ACUITE B+**' (**read as ACUITE B plus**) and assigned its short-term rating of '**ACUITE A4**' (**read as ACUITE A four**) on the Rs.22.07 Cr bank facilities of Sri Murugan Textiles (SMT). The outlook is '**Stable**'.

Sri Murugan Textiles (SMT) is an Annur- Coimbatore (Tamilnadu) based partnership firm established in 2014. SMT is engaged in manufacturing of Rayon Fabrics with its manufacturing unit in Annur. The firm has installed capacity of 50 Airjet looms and with an average weaving capacity of 22,500 meters of Rayon cloth per day. The firm is managed by K. Manojkumar and Ms. S.Madhumitha.

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of SMT to arrive at the rating

Key Rating Drivers

Strengths

- **Experienced management**

SMT is promoted by K. Manojkumar and Ms. S.Madhumitha, who have a decade of experience in textiles industry. The promoters and their family group companies are too in the textile business over the last 2 decades in the textile industry, which helped the firm build a healthy relationship with its suppliers and customers, to ensure a steady raw material supply and repeat business. Acuité believes that promoters' experience and local presence is expected to aid in improving its business risk profile over the medium term.

- **Improvement in performance of operations throughout the years**

Revenue of the firm has witnessed an increase of 75 percent CAGR in the period FY2018-2020. The revenues have increased to Rs.44.74 Cr in FY2020 from Rs.9.32 Cr in FY2019 and Rs.2.68 Cr in FY2018. The increase in revenue from operations was majorly on account of increase in production capacities of the firm. For 10MFY2021, the firm has registered Rs.63.63 Cr. Acuité believes that the ability of the firm to increase the scale of operations would be the key rating sensitivity factor over the medium term.

Weaknesses

- **Below-average financial risk profile**

The financial risk profile of the firm is below-average marked by low net worth, leveraged capital structure and comfortable debt protection metrics. The net worth of the firm is low at Rs. 2.40 Cr on 31 March, 2020 from Rs.2.34 Cr as on 31 March, 2019. The firm's capital structure is highly leveraged due to low networth base resulted in high gearing (debt-equity) and high total outside liabilities to tangible net worth (TOL/ TNW) stood at 5.72 times and 12.74 times as on 31 March, 2020 vis-à-vis 1.08 times and 1.31 times as on 31 March, 2019. The debt protection metrics are moderate with interest coverage ratio and net cash accruals to total debt at 9.04 times and 0.27 times, respectively in FY2020 vis-à-vis 3.74 times and 0.28 times in FY2019. Acuité believes that the financial risk profile of the firm is expected to remain below-average on account high long term borrowings and moderate profitability.

• Working capital intensive nature of operations

SMT's operations are working capital intensive in nature as reflected by its Gross Current Asset (GCA) days of around 78-196 days over the past three fiscals ended through March 31 2020. Debtor days stood at high 137 as on March 31, 2020. The company maintains low inventory days of about 13 days as on March 31, 2020 as against 5 days in as on March 31, 2019. On the other hand, the firm gets less credit of around 114 days on March 31, 2020 as against 24 days in as on March 31, 2019 from its suppliers. Its working capital limits are utilised at about 59 percent over the past six months ended Nov 2020. Acuité believes that operations are likely to remain working capital intensive.

• Risk of capital withdrawal

SMT's constitution as a partnership firm is exposed to discrete risks including the possibility of withdrawal of capital by the partners. Moreover, the partnership nature partially limits the flexibility to raise the funds vis-à-vis a limited firm.

Liquidity Position: Adequate

The firm has adequate liquidity marked by moderate net cash accruals to its maturing debt obligations; albeit constrained by working capital management. SMT generated cash accruals of Rs.0.45 to 3.75 Cr during the last 3 years through 2018-20, while its maturing debt obligations were in the range of Rs.0.15-1.25 Cr during the same period. The cash accruals of the firm is estimated to remain around Rs.2.50-3.50 Cr during 2021-23, while their repayment obligations are estimated to be around Rs.2.00-2.50 Cr during the same period. Firm's working capital limits are utilised at 59 percent over six months through November 2020. The current ratio stands moderate at 1.15 times as on 31 March 2020. Acuité believes that the liquidity of SMT is likely to remain adequate over the medium term on account of improving cash accruals against its moderate repayment obligations

Rating Sensitivities

- Significant improvement in scale of operations, while improving its profitability margins
- Any further large debt funded capital expenditure, impacting the financial risk profile adversely.

Outlook: Stable

Acuité believes that SMT will maintain a 'Stable' outlook in the medium term on account of long track record of operations and experienced management in the industry. The outlook may be revised to 'positive' if the firm registers higher-than-expected growth in its revenues while improving its profitability and capital structure. Conversely, the outlook may be revised to 'Negative' in case of any further stretch in its working capital management or larger-than-expected debt-funded capex or significant withdrawal of capital leading to the deterioration of its financial risk profile and liquidity.

About the Rated Entity - Key Financials

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	44.74	9.32
PAT	Rs. Cr.	0.09	0.07
PAT Margin	(%)	0.19	0.77
Total Debt/Tangible Net Worth	Times	5.72	1.08
PBDIT/Interest	Times	9.04	3.87

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

None

Any other information

None

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
Cash Credit	Not Applicable	Not Applicable	Not Applicable	(5.00)*	ACUITE B+/Stable (Assigned)
working capital demand loan	Not Applicable	Not Applicable	Not Applicable	0.50	ACUITE B+/Stable (Assigned)
working capital Term loan	June-2020	Not Applicable	May-2024	0.78	ACUITE B+/Stable (Assigned)
Term Loans	FEB-2015	Not Applicable	AUG-2023	1.14	ACUITE B+/Stable (Assigned)
Term Loan	APR-2018	Not Applicable	March-2026	1.45	ACUITE B+/Stable (Assigned)
Term Loan	March-2019	Not Applicable	March 2027	6.25	ACUITE B+/Stable (Assigned)
Proposed Bank facility	Not Applicable	Not Applicable	Not Applicable	1.95	ACUITE B+/Stable (Assigned)
Foreign Letter Of Credit (FLC)	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE A4 (Assigned)

*OCC Rs.5.00 Cr is sublimit to FLC

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About Acuité Ratings & Research:

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