



Press Release
SRI MURUGAN TEXTILES
January 31, 2024

Rating Assigned, Reaffirmed and Withdrawn

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	2.55	ACUITE BB Reaffirmed & Withdrawn	-
Bank Loan Ratings	23.43	ACUITE BB Stable Assigned	-
Bank Loan Ratings	17.52	ACUITE BB Stable Reaffirmed	-
Bank Loan Ratings	10.00	-	ACUITE A4+ Reaffirmed
Total Outstanding Quantum (Rs. Cr)	50.95	-	-
Total Withdrawn Quantum (Rs. Cr)	2.55	-	-

Rating Rationale

Acuite has reaffirmed its long term rating of '**ACUITE BB**' (read as **ACUITE double B**) on Rs.17.52Cr. bank facilities of Sri Murugan textiles. The outlook is Stable.

Acuite has reaffirmed and withdrawn its long term rating of '**ACUITE BB**' (read as **ACUITE double B**) on Rs.2.55Cr. bank facilities of Sri Murugan textiles. The rating has been withdrawn on Acuite's policy of withdrawal of ratings as applicable to the respective facility/instrument after receiving the client's withdrawal request.

Acuite has also assigned its long term rating of '**ACUITE BB**' (read as **ACUITE double B**) on Rs.23.43Cr. bank facilities of Sri Murugan textiles. The outlook is **Stable**.

Rationale for reaffirmation of rating:

The reaffirmation of rating considers Amman group's established track record of operations and steady improvement recorded in operating revenues marked by revenue growth of 9% in FY2023 to Rs.633.17 Cr from Rs.596.54Cr in FY2022. The growth in revenue is supported by higher sales volumes and improved realizations for fabrics. The operating margins maintained FY2022 levels and stood at 3.95% due to dependency on job work and high power costs. Further, operating margins are expected to improve in the near term on account of cost savings due to capex being undertaken to increase captive solar power generation. The rating further draws comfort from the efficient working capital operations and adequate liquidity position. The rating is however constrained on account of profitability being susceptible to fluctuations in raw material prices, its presence in fragmented and regulated industry with intense competition.

About Company

Established in 2014, Sri Murugan Textiles (SMT) is a partnership firm based out of AnnurCoimbatore (Tamil Nadu) engaged in sizing and manufacturing of Rayon Fabrics. The

firm has installed capacity of 130 Airjet looms and with an average weaving capacity of 45500 meters of Rayon cloth per day. The firm is s managed by Mr. K. Manojkumar, Ms. S.

About the Group

Sri Amman Group has 4 partnership firms and one company namely – Sri Amman textiles, Sri Amman Sizing and Weaving Mills, Sri Madura Textiles, Sri Murugan Textiles and Sri Amman Sizing and weaving mills Private Limited. The group is currently managed by 6 partners Nityanandan, Swaminandan, kaliswami, manoj Kumar, Gokul, Suchitra. All the partners are family members. The group has established **Sri Amman Sizing and Weaving Mills Private Limited** in FY20. The company was established as a SPV to supply solar power to its group company. The company does not undertake any other operations except the supply of solar power to its group companies/firms. The loans will be repaid from the sale proceedings of Solar power. However, the management is in plans of merging all firm into Sri Amman Sizing and Weaving Mills Private Limited in near future. The group manufactures grey fabrics of various qualities. The realizations depend up on the quality of the fabric produced. For viscous cloth generally price ranges from Rs.35 – Rs.60 per meter, for cotton cloth the prices are more that Rs.110 per meter

Unsupported Rating

None

Analytical Approach

Extent of Consolidation

- Full Consolidation

Rationale for Consolidation or Parent / Group / Govt. Support

For arriving at this rating, Acuité has consolidated the business and financial risk profiles of all the firm in the Amman Group (Sri Amman textiles, Sri Amman Sizing and weaving mills, Sri Murugan Textiles, Sri Madura Textiles, Sri Amman Sizing and weaving mills Private Limited) . The consolidation is in the view of similar line of business, common management, strong operational and financial linkages between the firms

Key Rating Drivers

Strengths

Established track record and steady improvement in operations:

All the partners of the group have presence in the textile industry for nearly two decades. This has helped the group in building healthy relationships with its suppliers and customers to ensure a steady raw material supply and repeat orders from its customers. Sri Amman textiles, Sri Madura Textiles and Amman Sizing and weaving mills have well established brand name in Korea, China which has resulted in 90 percent of the exports worth Rs.136Cr to these countries followed by bangladesh. Overall the group has shown stable improvement in its revenue in FY23 with a revenue of Rs.633.17Cr for the year posting a growth of 9 percent against previous year revenue of Rs.596.54 Cr. This growth in revenue is mainly due to higher sale of quantity during the year. To capture the increasing demand of fabrics, the group has hired some looms for weaving which has resulted in lower operating margin in the range 3.95 to 4 percent coupled with low realisations. Further , Amman group has continued its growth trend in the current year with revenue of Rs.351.18Cr till August 2023 and is expected to register revenue in the range of Rs.725Cr to 750Cr by the end of FY24. The improvement in revenue is mainly on account of capacity expansion of looms which was fully operational from March, 2023 and operating margin is expected to improve to 4.5 - 5 percent on account of savings from the captive power. Acuité believes that partners established presence in the textile industry will support the group's business profile over the medium term.

Efficient working capital operations:

Working capital operations of the group are efficient which is reflected by the Gross current assets days ranging between 91-97 days during past 3 years supported by timely receipts from customers. The debtor days stood at 46 days for FY23. Generally, the group allows a credit period of 30-45 days to its customers. The group maintains raw material inventory for 1-2 months and finished goods inventory of 30 days. The group's creditor days ranged between 30-35 days during past 3 years ending 2023. Moderate working capital operations has led to moderate dependency on its fund based working capital limits. The consolidated fund based limit utilisation stood at an average of ~71 percent during past 12 months ending August 2023. Acuite believes that working capital operations of the group will remain efficient over the medium term on account of timely receipts from debtors.

Weaknesses

Moderate financial risk profile

Amman group's financial risk profile is moderate, marked by moderate net worth, high gearing levels and moderate debt protection metrics. Group's net worth stood at Rs. 64.23 Cr as on March 31, 2023 as compared to Rs. 42.85 Cr as on March 31, 2022. Improvement in net worth is on account of infusion of capital worth Rs.18.76Cr by the partners coupled by accretion for profits to reserves. Amman group's capital structure is moderate marked by high gearing levels and total outside liabilities to total net worth (TOL/TNW) of 3.33 times and 4.2 times respectively as on March 31, 2023 as against 2.71 times and 3.81 times as on March 31, 2022. The deterioration is on account of infusion of debt towards capex. (The debt in Sri Amman Sizing and Weaving Mills Private Limited of Rs.45Cr is supported by personal guarantee provided by all 6 promoters as well as corporate guarantee provided by Sri Amman Textiles, Sri Amman Sizing and Weaving Mills providing additional comfort towards repayment of debt). The gearing ratio is expected to improve from FY25 onwards as the group has incurred additional Rs.9.70Cr debt towards capex in FY24. The coverage indicators remained moderate with DSCR of 2.17 times as on March 31st 2023 as against 2.70 times as on March 31st 2022. Interest coverage stood at 1.13 times as on March 31st 2023 as against 1.05 times as on March 31st 2022. Debt to EBITDA deteriorated to 6.74 times during FY23 from 4.70 times during previous year. Acuite believes that financial risk profile will improve on account of its improving scale of operations and expected improvement in profitability.

Susceptibility to fluctuation in raw material prices:

Amman Group's profitability is susceptible to fluctuations in the prices of major raw materials such as domestic cotton and Imported yarn. Cotton being a seasonal crop, the production of the same is highly dependent upon the monsoon. Thus, any situation of 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. Acuite believes that the group's business profile and financial risk profile can be adversely impacted on account of presence of inherent risk of susceptibility of volatility in raw cotton prices, since the industry is highly commoditized.

Rating Sensitivities

- Improving scale of operations and profitability margins.
- Elongation of working capital cycle leading to stretched liquidity.

Liquidity : Adequate

The group has adequate liquidity which is evident from sufficient net cash accruals (NCA) against debt repayment obligations. The group has reported NCA's of Rs.15.46Cr on March 31, 2023 against debt repayment obligations of Rs.12.10Cr. The cash accruals are estimated

to remain in the range of Rs.21-25Cr in the medium term against debt repayment range of Rs.18Cr – 22Cr. The unencumbered cash and bank balances stood at Rs.0.52Cr as on March 31, 2023. Adequate cash accruals led to moderate reliance on the working capital limits which were utilized in the range of ~71 percent during the past 12 months ending August, 2023. Acuite believes that liquidity position of the company will remain adequate in the medium term on account of sufficient NCA against repayment obligations and improving current ratio.

Outlook: Stable

Acuite believes that Amman Group will continue to benefit over the medium to long term on account of long track record of operations, experienced management in the industry. The outlook may be revised to 'Positive', in case of sustainable improvement in sales volumes and realizations of fabric produced by the group leading to higher-than expected revenues and profitability with improvement in financial risk profile. Conversely, the outlook may be revised to 'Negative' in case Amman Group registers lower-than-expected revenues and profitability or any significant stretch in its working capital management or larger-than-expected debt-funded capital expenditure leading to deterioration in its financial risk profile and liquidity.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 23 (Actual)	FY 22 (Actual)
Operating Income	Rs. Cr.	633.17	596.44
PAT	Rs. Cr.	2.27	2.66
PAT Margin	(%)	0.36	0.45
Total Debt/Tangible Net Worth	Times	3.33	2.71
PBDIT/Interest	Times	2.17	2.70

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

Not applicable

Any Other Information

None

Applicable Criteria

- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>
- Complexity Level Of Financial Instruments: <https://www.acuite.in/view-rating-criteria-55.htm>
- Consolidation Of Companies: <https://www.acuite.in/view-rating-criteria-60.htm>
- Manufacturing Entities: <https://www.acuite.in/view-rating-criteria-59.htm>
- Rating Process and Timeline: <https://www.acuite.in/view-rating-criteria-67.htm>

Note on Complexity Levels of the Rated Instrument

In order to inform the investors about complexity of instruments, Acuite has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in.

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
03 Nov 2022	Letter of Credit	Short Term	10.00	ACUITE A4+ (Upgraded from ACUITE A4)
	Term Loan	Long Term	1.68	ACUITE BB Stable (Upgraded from ACUITE B+)
	Cash Credit	Long Term	2.00	ACUITE BB Stable (Upgraded from ACUITE B+)
	Proposed Bank Facility	Long Term	2.39	ACUITE BB Stable (Upgraded from ACUITE B+)
	Term Loan	Long Term	6.00	ACUITE BB Stable (Upgraded from ACUITE B+)
	Cash Credit	Long Term	8.00	ACUITE BB Stable (Assigned)
04 May 2022	Working Capital Demand Loan	Long Term	0.50	ACUITE B+ (Issuer not co-operating*)
	Working Capital Term Loan	Long Term	0.78	ACUITE B+ (Issuer not co-operating*)
	Term Loan	Long Term	6.25	ACUITE B+ (Issuer not co-operating*)
	Term Loan	Long Term	1.14	ACUITE B+ (Issuer not co-operating*)
	Proposed Bank Facility	Long Term	1.95	ACUITE B+ (Issuer not co-operating*)
	Letter of Credit	Short Term	10.00	ACUITE A4 (Issuer not co-operating*)
	Term Loan	Long Term	1.45	ACUITE B+ (Issuer not co-operating*)
19 Feb 2021	Cash Credit	Long Term	5.00	ACUITE B+ Stable (Assigned)
	Working Capital Term Loan	Long Term	0.78	ACUITE B+ Stable (Assigned)
	Term Loan	Long Term	1.14	ACUITE B+ Stable (Assigned)
	Term Loan	Long Term	6.25	ACUITE B+ Stable (Assigned)
	Proposed Bank Facility	Long Term	1.95	ACUITE B+ Stable (Assigned)
	Term Loan	Long Term	1.45	ACUITE B+ Stable (Assigned)
	Working Capital Demand Loan	Long Term	0.50	ACUITE B+ Stable (Assigned)
	Letter of Credit	Short Term	10.00	ACUITE A4 (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Canara Bank	Not avl. / Not appl.	Cash Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	10.00	ACUITE BB Stable Reaffirmed
Canara Bank	Not avl. / Not appl.	Cash Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	10.00	ACUITE BB Stable Assigned
Canara Bank	Not avl. / Not appl.	Letter of Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	10.00	ACUITE A4+ Reaffirmed
Canara Bank	Not avl. / Not appl.	Term Loan	Not avl. / Not appl.	Not avl. / Not appl.	14 Sep 2027	Simple	4.05	ACUITE BB Stable Reaffirmed
Canara Bank	Not avl. / Not appl.	Term Loan	Not avl. / Not appl.	Not avl. / Not appl.	07 Sep 2027	Simple	1.08	ACUITE BB Stable Reaffirmed
Canara Bank	Not avl. / Not appl.	Term Loan	Not avl. / Not appl.	Not avl. / Not appl.	12 Apr 2030	Simple	2.39	ACUITE BB Stable Reaffirmed
Canara Bank	Not avl. / Not appl.	Term Loan	Not avl. / Not appl.	Not avl. / Not appl.	12 Apr 2030	Simple	12.58	ACUITE BB Stable Assigned
Canara Bank	Not avl. / Not appl.	Term Loan	Not avl. / Not appl.	Not avl. / Not appl.	07 Sep 2027	Simple	0.60	ACUITE BB Reaffirmed & Withdrawn
Canara Bank	Not avl. / Not appl.	Term Loan	Not avl. / Not appl.	Not avl. / Not appl.	14 Sep 2027	Simple	1.95	ACUITE BB Reaffirmed & Withdrawn
Canara Bank	Not avl. / Not appl.	Term Loan	Not avl. / Not appl.	Not avl. / Not appl.	03 Mar 2027	Simple	0.85	ACUITE BB Stable Assigned

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About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI) for Bank Loan Ratings under BASEL-II norms in the year 2012. Acuité has assigned ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

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