

Press Release

Subburaaj Cotton Mill Private Limited

July 09, 2021

Rating Assigned



Total Bank Facilities Rated*	Rs. 62.00 Cr.
Long Term Rating	ACUITE BBB/Outlook: Stable (Assigned)
Short Term Rating	ACUITE A3+ (Assigned)

* Refer Annexure for details

Rating Rationale

Acuite has assigned its long term rating of **'ACUITE BBB' (read as ACUITE triple 'B')** and the short term rating of **'ACUITE A3+' (read as ACUITE A three 'Plus')** on the Rs.62.00 crore bank facilities of Subburaaj Cotton Mill Private Limited (SCMPL). The outlook is **'Stable'**.

About the Company

Established in 1980 and based in Rajapalayam (Tamil Nadu), Subburaaj Cotton Mill Private Limited (SCMPL) was initially set up as partnership firm 'Subburaaj Cotton Mill' by Mr. K. Venkatasamy. In May 1995, the firm changed its constitution to private limited company and currently is promoted by Mr. A. Saravanakumar, Ms. S. Ramapriya and other family members. SCMPL, a family-owned business, is engaged in the production of cotton yarn across coarser, medium and finer counts, largely utilized in the home textile segments (16s, 20s, 30s, 40s, 80s, 100s and 105s). SCMPL has a ring spinning manufacturing unit located in Rajapalayam (Tamil Nadu) with an installed capacity of 70,560 spindles and a rotor spinning manufacturing unit located in Krishnan Kovil (Tamil Nadu) with an installed capacity of 3,030 rotors, equivalent to 24,240 spindles.

About the Group

Established in 2004 and based in Rajapalayam (Tamil Nadu), Veebee Yarnntex Private Limited (VBYTPL) is promoted by Mr. A. Saravanakumar, Ms. S. Ramapriya and other family members. VBYTPL, a family owned business, is engaged in the production of cotton yarn of finer counts of superior and premium quality, largely utilized in the home textile segments (60s, 67s, 80s, 100s and 120s). VBYTPL has a ring spinning manufacturing unit located in Madurai (Tamil Nadu) with an installed capacity of 1,13,088 spindles.

Analytical Approach

For arriving at this rating, Acuite has consolidated the business and financial risk profiles of Subburaaj Cotton Mill Private Limited (SCMPL) and Veebee Yarnntex Private Limited (VBYTPL) together referred to as the 'SCM Group'. The consolidation is in the view of common management, strong operational and financial linkages between the entities.

Extent of consolidation: Full.

Key Rating Drivers

Strengths

- Promoters' extensive experience in cotton yarn manufacturing segment; established track record of operations in Tamil Nadu and Telangana; healthy order book providing near term revenue visibility**

Subburaaj Group is a family-owned business with the existence of more than four decades in the cotton yarn spinning industry. SCMPL was established with a spinning capacity of 12,000 spindles in 1980 by Mr. K. Venkatasamy as a partnership firm. In 2002, SCMPL was acquired by Mr. A. Saravanakumar (Grandson of Mr. K. Venkatasamy) in family settlement with nearly 20,000 spindles capacity. Over the years, Mr. Saravanakumar established the brand name of "Subburaaj" in both domestic and international markets and has actively taken part in the day-to-day operations of the group. The group exports to various countries namely Sri Lanka, Bangladesh, Myanmar, Singapore amongst others. The brand name "Subburaaj" is popular in the region of Sri Lanka and "Subburaaj Gold" in the region of Bangladesh. In 2004, Mr. Saravanakumar incorporated VBYTPL for production of cotton yarn of finer counts. With a long track record of operations in Rajapalayam, SCM Group is one of the renowned cotton yarn manufacturer with a total spinning capacity of 1,83,648 spindles and 3,030 rotors along with 2.9 megawatt (MW) solar power for captive consumption. With promoter's extensive industry experience and established existence, SCM Group has been able to establish a longstanding relationship with its key suppliers and customers.

As on June 08, 2021, SCM Group has an unexecuted order book position of approx. Rs. 150.49 Cr; estimated to be executed over the next 3-9 months providing near-term revenue visibility (majorly that of Giza and Pima cotton yarn). Acuite believes that the promoter's extensive industry experience and established relationships with its customers and suppliers will aid group's business risk profile over the medium term.

• **Above-average debt protection metrics and capital structure**

SCM Group's financial risk profile is above-average, marked by a moderate network, improving gearing and above-average debt protection metrics. The EBITDA margins of the group improved to 14.16 per cent in FY2021 (Prov) against 9.36 in FY2020. The improvement is attributable to reduction in trading activity of goods during the period. The healthy profitability levels vis-à-vis reduction in the finance cost has led to improvement in the debt protection metrics. The interest coverage ratio (ICR) and debt service coverage ratio (DSCR) stood at 4.29 times and 1.99 times respectively in FY2021 (Prov) as against 3.48 and 1.85 times respectively in the previous year.

The net worth of the group stood at Rs.84.75 Cr as on 31 March, 2021 (Prov) as against Rs.66.06 Cr as on 31 March, 2020. This improvement is on the account of healthy accretion to reserves. The gearing level (debt-equity) stands average at 1.88 times as on 31 March, 2021 (Prov) as against 2.08 times as on 31 March, 2020, the improvement is on the significant increase in net worth by Rs.18.70 Cr despite the increase in total debt to Rs.159.35 Cr in FY2021 (Prov) against Rs.137.41 Cr in previous year. TOL/TNW (Total outside liabilities/Total net worth) has improved and stands at 2.29 times as on 31 March, 2021 (Prov) against 2.44 times in previous year. The total debt of Rs.159.35 Cr as on 31 March, 2021 (Prov) consist of long-term debt of Rs.57.84 Cr, short term debt of Rs.69.72 Cr and unsecured loans of Rs.13.87 Cr and maturing portion of long term borrowings of Rs.17.91 Cr. NCA/TD (Net cash accruals to total debt) stands low at 0.21 times in FY2021 as against 0.20 times in FY2020. Acuite expects the financial risk profile to remain above-average over the medium to long term period on account of moderate capital structure and stable operations of the group.

• **Diversification into premium segment of cotton yarn; expected increase in scale of operations**

SCM group in FY2021 has ventured into the premium segment by manufacturing of superior quality of cotton yarn. The group has started with manufacturing of 'Giza' cotton yarn in FY2021 and is expected to receive the license for 'Supima' cotton by the end of June 2021. There exist very few players in Indian cotton yarn spinning industry dealing with superior quality cotton and thus, ensuring high margins in these products. As per the unexecuted order book as of June 8, 2021, group has already received order from L.S. Mills Limited (rated 'ACUITE A/Stable') of amount Rs.40.53 Cr for Giza cotton yarn to be produced until December 2021. SCM Group will cater to the demand of various cotton yarn types such as Domestic cotton, Organic cotton, Egyptian 'Giza' cotton, Pima and Supima cotton. Acuite believes that group's business risk profile will improve on account of increase in scale of operations in premium segment of cotton yarn and will ensure improvement in profitability position of the group.

• **Expected improvement in profitability margins on account of inventory gains**

As of March 31, 2021, SCM group has been holding inventory of raw material amounting to Rs. 55.59 Cr and has provided advances to the respective suppliers for the same of amount Rs.31.19 Cr. It can be observed that there exists a significant spread between the average inventory holding price of raw material by the group compared with the prevailing market price of the raw material. As of May 31, 2022, SCmpl on average realized Rs.342.98 per Kg from the sales of cotton yarn against raw material cost of Rs.137.35 per Kg, whereas, VBYTPL on average realized Rs.559.88 per Kg from the sales of cotton yarn against raw material cost of Rs.159.29 per Kg. Acuite believes that group can experience elevated profitability margins in current financial year by nearly Rs.20-30 Cr on account of inventory gains and further profitability margins are expected to improve in medium term on account of venture into premium quality cotton yarn products.

• **Capital expenditure for modernization of machinery over the years and capex underway for installment of solar panels**

SCM Group over the past financial years has been focusing on upgradation of the machinery and as of June, 2021, the group has achieved 100 percent compact yarn production capacity from combed yarn production. The compact yarn is the highest quality of ring spun yarn and yield yarn which is completely free from the short fibres, dirt, broken seeds etc. and has the highest strength. The management of the group is now inclined towards reduction of power cost and has installed 1.90 MW solar power plant in SCmpl and 1.0 MW solar power plant in VBYTPL. Currently, the power generated from own solar panel meets nearly 10 per cent of group's total captive requirement. In FY2022, the group will be installing additional solar power plant of around 5.00 MW through VBYTPL. The project is expected to cost around Rs.23.50 Cr and will be funded through long term loan of Rs.17.50 Cr and through promoter's contribution (internal accruals) of Rs.6.00 Cr. Acuite believes that group's financial risk profile will improve on account of reduction in power cost and will ensure improvement in profitability position of the group.

Weaknesses

• Working capital operations marked by moderate GCA days

SCM Group's working capital cycle is marked by moderate gross current assets (GCA) days in the range of 72-153 days over the last 3 years ending March 31, 2021 (Prov). The GCA days are marked by high inventory days and moderate debtor days. The elevated GCA days as on March 31, 2021 (Provisional) is on account of holding high inventory of raw cotton and short term advances paid to the suppliers towards the purchase of raw cotton amounting to nearly Rs.31.19 Cr. The inventory held and advances given for the raw material is completely order back and mitigates the risk of holding high inventory of raw cotton. The inventory days and debtor days were at 95 days and 23 days, respectively, as on March 31, 2021 (Provisional). These are partially offset by moderate creditor days at 21 days as on March 31, 2021 (provisional). The moderate GCA cycle has led to average utilization of 62.23 percent of working capital requirement bank lines of Rs.91.25 Cr over the past 12 months ending May, 2021. Acuite believes that the operations of the group will remain moderately working capital intensive on account of expected high level of inventory holdings to be maintained by the group for the manufacturing of superior quality cotton yarn.

• Susceptibility to fluctuation in raw material prices

SCM Group's profitable margins are susceptible to fluctuations in the prices of major raw materials such as domestic cotton (DCH 32, MCU 5) and Import cotton (Giza, Pima and Supima). 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. Acuite believes that the group's business profile and financial 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.

Liquidity Position: Adequate

SCM Group's liquidity is adequate marked by moderate generation of net cash accruals in FY2021 to its maturing debt obligations and moderate level of unencumbered cash and bank balance. The group has generated cash accruals in the range of Rs.22.56-33.00 Cr during last three years ending FY2021 (Prov) as against its long term debt obligations of Rs.8.86-10.85 Cr for the same period. The group's working capital is moderate as evident from Gross Current Asset (GCA) of 153 days as on March, 2021 (Prov) as compared to 72 days as on March, 2020. The current ratio stood at 1.22 times as on 31 March 2021 (Prov) against 0.99 in previous year and the consolidated fund based limit remains utilized at 62.23 percent over the 12 months ended May, 2021. The group maintained unencumbered cash and bank balances of Rs.2.63 Cr as on 31 March 2021 (Prov) against Rs.0.14 Cr in previous year. Acuite believes that the liquidity of the group is likely to improve over the medium term on account of healthy order book and increasing scale of operations in superior quality cotton yarn. The group is expected to generate NCA in range of Rs.47.48-54.30 Cr against maturing debt obligations in range of Rs.15.27-18.12 Cr over the medium term.

Rating Sensitivities

Positive

- Significant and sustainable improvement in the scale of operations in superior quality yarn segment.
- Sustainable improvement in Profitability, Leverage and Solvency position of the group.
- Sustainable improvement in Gross current assets (GCA) days.

Negative

- Any deterioration in working capital cycle and liquidity profile of the group.
- Any deterioration in Revenue profile and leverage position of the group.
- Any weakening of financial risk profile of the group.

Outlook: Stable

Acuite believes that SCM Group will continue to benefit over the medium to long term on account of long track record of operations, experienced management in the industry, healthy unexecuted order book and its venture into superior quality of cotton yarn products. The outlook may be revised to 'Positive', in case of sustainable improvement in sales volumes and realizations of superior quality of cotton yarn 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 SCM 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 of its financial risk profile and liquidity.

About the Rated Entity - Key Financials (Consolidated)

	Unit	FY21 (Provisional)	FY20 (Actual)
Operating Income	Rs. Cr.	329.54	458.46
PAT	Rs. Cr.	18.70	13.73
PAT Margin	(%)	5.67	2.99
Total Debt/Tangible Net Worth	Times	1.88	2.08
PBDIT/Interest	Times	4.29	3.48

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

Not Applicable

Any other information

None

Material Covenants

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>
- Entities in Manufacturing Sector - <https://www.acuite.in/view-rating-criteria-59.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	30.00	ACUITE BBB/Stable (Assigned)
Working Capital Term Loan	21-12-2019	9.75	31-05-2025	8.34	ACUITE BBB/Stable (Assigned)
Working Capital Demand Loan	20-05-2020	7.80	31-03-2022	2.53	ACUITE BBB/Stable (Assigned)
Working Capital Term Loan	01-03-2021	7.50	28-02-2025	5.20	ACUITE BBB/Stable (Assigned)
PC/PCFA	Not Applicable	Not Applicable	Not Applicable	0.75	ACUITE BBB/Stable (Assigned)
FBN/FBP/FBD/PSFC/FBE	Not Applicable	Not Applicable	Not Applicable	6.00	ACUITE BBB/Stable (Assigned)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	6.00	ACUITE BBB/Stable (Assigned)
Working Capital Demand Loan	21-04-2020	7.40	31-03-2022	0.37	ACUITE BBB/Stable (Assigned)
Working Capital Term Loan	03-02-2021	7.40	31-01-2025	1.16	ACUITE BBB/Stable (Assigned)
Term Loan	06-01-2014	8.65	30-09-2021	0.33	ACUITE BBB/Stable (Assigned)

Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	0.82	ACUITE BBB/Stable (Assigned)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	0.50	ACUITE A3+ (Assigned)

Sub limit for Packing Credit of Rs.10 Cr

^ Standby Packing Credit limit of Rs.0.75 Cr

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About Acuité Ratings & Research:

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