

Press Release

Subburaaj Cotton Mill Private Limited

October 07, 2022



Rating Assigned and Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	30.00	ACUITE BBB Stable Assigned	-
Bank Loan Ratings	62.00	ACUITE BBB Stable Reaffirmed	-
Total Outstanding Quantum (Rs. Cr)	92.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has reaffirmed its long term rating of **'ACUITE BBB' (read as ACUITE triple 'B')** on the Rs.62.00 crore bank facilities of Subburaaj Cotton Mill Private Limited (SCMPL). The outlook is **'Stable'**.

Also Acuite has assigned its long term rating of **ACUITE BBB (Read as ACUITE triple B)** on additional Rs.30Cr bank facilities of Subburaaj Cotton Mills Private Limited. The out look is **'Stable'**.

The rating action takes into account the promoters extensive industry experience along with established track record of operations in Tamil Nadu and Telangana. Further the rating factors in the modernization of spindles to 100% compact yarn manufacturing, improved operating performance in FY22 and above average financial risk profile. However, rating is constrained by its moderate working capital management and suseptibility to fluctuations in raw material prices.

About 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 1,26,088 spindles.

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 Veebee Yarnntex Private Limited (VBYTPL) and Subburaaj Cotton Mill Private Limited (SCMPL) together referred to as the 'SCM Group'. The consolidation is in the view of common management, strong operational and financial linkages between the entities.

Key Rating Drivers

Strengths

Promoters' extensive experience in cotton yarn manufacturing segment; established track record of operations in Tamil Nadu and Telangana.

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 1,97,648 spindles and 3,030 rotors along with 31 megawatt (MW) solar power for captive consumption. The promoter's extensive industry experience and established existence has helped the SCM Group to establish a longstanding relationship with its key suppliers and customers. The extensive experience of promoter is also reflected through significant increase in revenue in FY2022 on account of improved production and improved realization rates of cotton yarn. Average realization rates stood at Rs.465 per Kg in domestic market and Rs.296 per Kg in Export market compared to Rs.318 and Rs.219 for respectively in previous year. Operational Margin and PAT margins improved significantly in FY22 (Provisionals) to 19.60 percent and 10.30 percent from 13.24 & 5.17 percent respectively in previous year.

Acuite believes that established track record of operations and longstanding relationship with customers and suppliers is to benefit the group over the medium term.

Capex solar power and Modernization of spindles to 100% compact yarn manufacturing:

SCM group over the past financial year has been focused on upgradation of the machinery and as of August, 2022, the group has achieved 100% compact yarn production capacity from combed yarn production. The compact yarn is the highest quality of ring spun yarn in which the yarn is completely free from the short fibers, dirt, broken seeds etc. and has the highest strength. The margins in compact yarn is higher than the other yarn on account of the

superior quality it offers to the end consumer. During the last FY, the group has done Capex to the tune of Rs. 180 Cr (Rs.132Cr Solar capex & Rs48Cr Compact, modernization and expansion of spindles capacity).The capex was completed and operational from August' 2022. During FY 2023 and expecting unit generation of around 3.10 Crs units since it is operational only for 7 months. From FY 2024 onwards, this Capex would generate 5.55 Cr units annually. Since all the units generated are captively consumed, EBITDA margins are expected to improve from FY23.

Above average Financial Risk profile

The financial risk profile of the group is above average marked by healthy capital structure and above average debt protection metrics. The net worth of the group stood at Rs.137.31Cr as on March 31, 2022(Provisionals) against RS.84.20Cr in previous year. This improvement is on account of healthy accretion to the reserves in FY22. The gearing stood moderately high at 1.87times as on March 31, 2022 (Provisionals). TOL/TNW (Total outside liabilities/Total net worth) has improved and stands at 2.21 times as on 31 March, 2022(Provisionals) against 2.32 times in previous year. The total debt of Rs.256.24Cr. as on 31 March, 2022(Provisionals) consist of long-term debt of Rs.127.61 Cr., USL from directors/promoters of Rs.14.13 Cr., short term debt of Rs.82.72 Cr. and maturing portion of long term borrowings of Rs.31.77 Cr. NCA/TD (Net cash accruals to total debt) stood at 0.28 times as on March 31, 2022(Provisionals). The interest coverage ratio (ICR) and debt service coverage ratio (DSCR) stood at 7.04 times and 2.60 times respectively as on March 31, 2022(Provisionals) as against 4.18 and 3.02 times respectively in the previous year.

Weaknesses

Moderate Working capital management:

SCM Group's working capital management is moderately managed as reflected by its gross current asset (GCA) days of around 118 days as on March 31, 2022(Prov) against 143 days in previous year. The group was holding cotton inventory of ~RS.53Cr. The debtors' days of the group ranges from 30-35 days. The group gets around 2-weeks credit period from its suppliers, leading to moderate level of dependence on working capital limits. Subburaaj Group's consolidated working capital limits over the last twelve months' period through April,2021 was utilized at an average of 76 per cent. Acuite believes that working capital management of the group will remain moderately intensive over the medium term.

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.

Rating Sensitivities

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

Material Covenants

None

Liquidity : Adequate

SCM group has adequate Liquidity on account of sufficient NCA's against maturing debt obligations. SCM group has generated NCA of Rs.71.65 Cr. in FY22(Provisionals) against debt obligation of Rs.18.39 Cr. The company is expected to generate adequate NCAs in the range of Rs.70-75 Cr. against CPLTD in the range of Rs.31-35 Cr. SCM Group had modest unencumbered cash and bank balance of Rs.2.63 Cr. in its current accounts with the bank and current ratio of 1.22 times as on March 31, 2021 (Provisional). The CC limit of Rs.36 Cr. has been utilized at above average level, with average 72.06 per cent utilization over the last 12 months through July 2022. The stand-by line of Credit limit of Rs. 0.75 Cr. has not utilized over the last 12 months through July 2022. The CC limit of Rs.6 Cr. For Unit II has been utilized at high level, with average 68.0 per cent utilization over the last 12 months through July 2022. Acuite believes that liquidity position of the group will remain adequate over the medium term.

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.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 22 (Provisional)	FY 21 (Actual)
Operating Income	Rs. Cr.	515.74	350.93
PAT	Rs. Cr.	53.11	18.14
PAT Margin	(%)	10.30	5.17
Total Debt/Tangible Net Worth	Times	1.87	1.90
PBDIT/Interest	Times	7.04	4.18

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

None

Any Other Information

None

Applicable Criteria

- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>

- Consolidation Of Companies: <https://www.acuite.in/view-rating-criteria-60.htm>
- Default Recognition: <https://www.acuite.in/view-rating-criteria-52.htm>
- Manufacturing Entities: <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

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
09 Jul 2021	Working Capital Demand Loan	Long Term	2.53	ACUITE BBB Stable (Assigned)
	Packing Credit	Long Term	0.75	ACUITE BBB Stable (Assigned)
	Working Capital Demand Loan	Long Term	0.37	ACUITE BBB Stable (Assigned)
	Bank Guarantee	Short Term	0.50	ACUITE A3+ (Assigned)
	Term Loan	Long Term	0.33	ACUITE BBB Stable (Assigned)
	Working Capital Term Loan	Long Term	1.16	ACUITE BBB Stable (Assigned)
	Bills Discounting	Long Term	6.00	ACUITE BBB Stable (Assigned)
	Working Capital Term Loan	Long Term	8.34	ACUITE BBB Stable (Assigned)
	Working Capital Term Loan	Long Term	5.20	ACUITE BBB Stable (Assigned)
	Cash Credit	Long Term	30.00	ACUITE BBB Stable (Assigned)
	Cash Credit	Long Term	6.00	ACUITE BBB Stable (Assigned)
	Proposed Bank Facility	Long Term	0.82	ACUITE BBB Stable (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
State Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	6.00	ACUITE BBB Stable Reaffirmed
State Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	36.00	ACUITE BBB Stable Reaffirmed
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	0.44	ACUITE BBB Stable Reaffirmed
State Bank of India	Not Applicable	Stand By Line of Credit	Not Applicable	Not Applicable	Not Applicable	0.75	ACUITE BBB Stable Reaffirmed
State Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	5.66	ACUITE BBB Stable Reaffirmed
State Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	4.67	ACUITE BBB Stable Reaffirmed
State Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	0.93	ACUITE BBB Stable Reaffirmed
State Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	4.34	ACUITE BBB Stable Reaffirmed
State Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	3.21	ACUITE BBB Stable Reaffirmed
State Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	30.00	ACUITE BBB Stable Assigned

- GECL loans of Rs.0.93Cr, Rs.4.34Cr, Rs.3.21Cr are referred as Term loan.
- Packaging Credit of Rs.0.75 in FY21 has been converted to Stand by line of credit in FY22 with SBI.
- Bill Discounting of Rs.6.00Cr in FY21 with Bank of Baroda has converted to Cash credit in FY22 with SBI

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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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