



Press Release
SUBBURA A J COTTON MILL PRIVATE LIMITED
January 05, 2024
Rating Reaffirmed

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

Rating Rationale

Acuite has reaffirmed its long term rating of '**ACUITE BBB**' (read as **ACUITE triple B**) on the Rs.92.00 crore bank facilities of Subburaj Cotton Mill Private Limited (SCMPL). The outlook is '**Stable**'.

Rationale for rating reaffirmation:

The rating reaffirmation considers the moderation in revenue, moderate financial risk profile of the group during FY23 and recovery recorded in H1FY2024. The group reported revenue of Rs.510Cr during FY23 against Rs.515.36 of previous year. The moderation in revenue is on account of low realisation during the year which was further led to sharp decline in EBITDA margins to 8.18 percent in FY23 from all time high of 19.38 percent in FY22. The sharp decline in EBITDA has led to deterioration of financial risk profile and liquidity position. However, the operations are recovering during the current year, as the group has registered revenue of Rs.262Cr with a EBITDA margin of ~13 percent till September 2023. EBITDA margin is expected to improve to 11-13 percent by the end of FY24 mainly on account of savings from captive power. The financial risk profile of the group is likely to improve over the medium term despite infusion Rs.44Cr debt towards capex of modernization and installation of solar plant in the current year on account of improving EBITDA. Going forward the company's ability in recovering the EBITDA margin will be a key monitorable.

About Company

Established in 1980 and based in Rajapalayam (Tamil Nadu), Subburaj Cotton Mill Private Limited (SCMPL) was initially set up as partnership firm 'Subburaj 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, Mrs. 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 70,704 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, Mrs. 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 1,26,384 spindles.

Unsupported Rating

Not Applicable

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 1,97,088 spindles and 3,030 rotors along with 39.26 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. Acuite believes that established track record of operations and longstanding relationship with customers and suppliers is to benefit the group over the medium term.

Moderate working capital operations:

The working capital operation of the group are moderate as reflected by the gross current assets (GCA) days of 103 days during FY23. The group generally maintains high amounts of inventory required for 45-60 days with a view to ensure the quality of the cotton. The debtor days of the group stood in the range of 35-22 days during past 3 years. Timely receipts of funds from debtors has ensured upfront payment to its suppliers. Generally, the group gives advance amount to the supplier of the raw materials in the range of Rs30-40Cr however, during FY23 in order to maintain enough cushion in liquidity the group has reduced the advance amounts to Rs.7-10Cr leading to deterioration in current ratio to 1.08 times. The moderate working capital operations have led to moderate utilization of the fund based working capital operations at ~67 percent during the past 12 months ending October 2023. Acuite believes that the working capital cycle will continue to remain in the similar over the medium term on account of business cycle of cotton industry.

Weaknesses

Decline in operating performance in FY2023, albeit recovery recorded in H1FY2024:

SCM group has reported revenue of Rs.510.41Cr during FY23 which was marginally declined by 1 percent against revenue of Rs.515.36Cr from previous year. The slight decline in revenue is on account of low realisations throughout the year. The EBITDA margin of the group has declined sharply to 8.18 percent during FY23 from all time high of 19.76 percent of previous year. The group has registered its highest EBITDA margin during FY22 around ~20 percent which is contributed by the better realisations for compact yarn during the year coupled by savings from captive power. However due demand and supply contraction raw material prices have sharply decline from Rs.1,10,000 per candy in Q3-Q4 of FY22 to Rs. 65,000 per candy in Q1-Q2 of FY23. This scenario has resulted in sharp decline in group's EBITDA margin during FY23. The group has reported revenue of Rs.262Cr till September 2023 and expected to report revenue around Rs.540-550Cr by the end of FY23. EBITDA margin is expected to bounce back to historic levels of 11-13 percent on account of good realisation rates and savings from captive power.

Moderate financial risk profile

The Subburaaj group's financial risk profile is moderate, marked by moderate network, capital structure and debt protection metrics. Group's net worth stood at Rs. 133.32 Cr as on March 31, 2023 as compared to Rs. 135.02 Cr as on March 31, 2022. Decline in network is on account of net loss suffered by the group in FY23. The group's capital structure is moderate marked with gearing and total outside liabilities to total net worth (TOL/TNW) of 1.87 times and 2.16 times respectively as on March 31, 2023 as against 1.89 times and 2.26 times as on March 31, 2022. Interest coverage ratio and Debt service coverage ratio (DSCR) has deteriorated to 2.48 times and 0.77 times in FY23 from 6.97 times and 2.52 times respectively of previous year owing to sharp decline in EBITDA during FY23. Further to this debt to EBITDA deteriorated to 5.43 times in FY23 against 2.45 times of previous year. Acuité believes that despite ongoing debt funded capex the financial risk profile of the group will improve over the medium term on account of expected improvement in EBITDA.

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. Acuité 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..

Liquidity Position: Adequate

SCM group's has insufficient cash accruals to its debt obligations however, the working capital changes and moderate utilization of the fund based working capital limits have ensured cushion towards liquidity. The group has reported cash accruals of Rs.20.07 Cr in FY23 against its repayment obligations of Rs.31.77 Cr for the same period. The working capital operations are moderate as reflected by its Gross Current Asset (GCA) days of 103 in FY23, leading to moderate utilisation of its limits at about ~67 per cent during the last 12 months' period ended October, 2023. The group's accruals are expected to be in the range of

Rs40.00- 50.00 Cr for FY24-26 against its repayment obligations of Rs.33-27 Cr during the same period. Acuité believes that the liquidity position of the group will improve in the medium term with sufficient net cash accruals to meet the debt obligations.

Outlook:

Acuité 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 23 (Actual)	FY 22 (Actual)
Operating Income	Rs. Cr.	510.41	515.36
PAT	Rs. Cr.	(1.70)	50.82
PAT Margin	(%)	(0.33)	9.86
Total Debt/Tangible Net Worth	Times	1.87	1.89
PBDIT/Interest	Times	2.48	6.97

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>

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
07 Oct 2022	Standby Line of Credit	Long Term	0.75	ACUITE BBB Stable (Reaffirmed)
	Proposed Bank Facility	Long Term	0.44	ACUITE BBB Stable (Reaffirmed)
	Term Loan	Long Term	4.67	ACUITE BBB Stable (Reaffirmed)
	Term Loan	Long Term	4.34	ACUITE BBB Stable (Reaffirmed)
	Cash Credit	Long Term	6.00	ACUITE BBB Stable (Reaffirmed)
	Term Loan	Long Term	0.93	ACUITE BBB Stable (Reaffirmed)
	Cash Credit	Long Term	36.00	ACUITE BBB Stable (Reaffirmed)
	Term Loan	Long Term	3.21	ACUITE BBB Stable (Reaffirmed)
	Term Loan	Long Term	5.66	ACUITE BBB Stable (Reaffirmed)
	Term Loan	Long Term	30.00	ACUITE BBB Stable (Assigned)
09 Jul 2021	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)
	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)
	Working Capital Demand Loan	Long Term	2.53	ACUITE BBB Stable (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
State Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	48.00	ACUITE BBB Stable Reaffirmed
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Simple	5.08	ACUITE BBB Stable Reaffirmed
State Bank of India	Not Applicable	Stand By Line of Credit	Not Applicable	Not Applicable	Not Applicable	Simple	0.75	ACUITE BBB Stable Reaffirmed
State Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	3.32	ACUITE BBB Stable Reaffirmed
State Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	28.61	ACUITE BBB Stable Reaffirmed
State Bank of India	Not Applicable	Working Capital Term Loan	Not available	Not available	Not available	Simple	2.32	ACUITE BBB Stable Reaffirmed
State Bank of India	Not Applicable	Working Capital Term Loan	Not available	Not available	Not available	Simple	0.71	ACUITE BBB Stable Reaffirmed
State Bank of India	Not Applicable	Working Capital Term Loan	Not available	Not available	Not available	Simple	3.21	ACUITE BBB Stable Reaffirmed

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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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