

Press Release

Sri Madura Textiles

November 03, 2022

Rating Assigned



Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	21.00	ACUITE BB Stable Assigned	-
Total Outstanding Quantum (Rs. Cr)	21.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has assigned it long term rating of **ACUITE BB (ACUITE double b)** on the Rs.21Cr bank facilities of Sri Madura textiles (SMT). The outlook is 'Stable'.

Rationale for the assignment

The rating assigned is owing to the change in the analytical approach from standalone to consolidation. The rating action takes into account the partners extensive industry experience, significant improvement in revenue for FY22 and efficient working capital management. However, rating is constrained by moderate financial risk profile and its susceptibility to fluctuations in raw material prices.

About Company

Established in 2017, the Sri Madura Textiles is engaged in manufacturing of grey fabric. The firm is based in Coimbatore, Tamil Nadu and the operations are owned and managed by Mr. A. Kalisamy, Mr. S.N. Swaminathan, Mr. S.N. Nithyandhan, Ms. P.Chitra, Ms. M.Suchitra and Mr. K.Manojkumar. The company have its manufacturing facilities in Coimbatore Tamil nadu and has capacity of 46 airjet looms,

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 named Nityanandan, Swaminandan, kaliswami, manoj Kumar, Gokul, Suchitra. All the partners are family members. The group is into production of grey fabrics. The process involves purchase of yarn (Viscous yarn and cotton Yarn) and improving the strength of these yarns by sizing and finally production of grey fabrics by weaving of these yarns in Air jet looms. The group has established Sri Amman Sizing and Weaving Mills Private Limited in FY20. The company was established as an SPV for the solar project as the group is currently undergoing solar capex of 12MW worth Rs.64.25Cr (Rs. 45Cr of bank loans and Rs.19.25Cr promoter's contribution). The capex is expected to be operational from December 2022. SASWMPL will supply necessary power to its group firms. The capex will be captively consumed. Currently, the power

consumption of the group is 10MW sourced from Electricity board (EB) and other third party sources.

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 firms 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

Experience of partners and established track record of operations

All the partners of the group have presence in the textile industry for nearly two decades. This has helped in building healthy relationships with its suppliers and customers to ensure a steady raw material supply and repeat business. Sri Amman textiles and Amman Sizing and weaving mills has well established brand name in Korea and made exports worth Rs 88.17Cr in FY22. Sri Madura textiles mainly do exports for Bangladesh region. Acuité believes that partners established presence in the textile industry will support the SAT' business profile over the medium term.

Significant improvement in revenue for FY22

The group has shown significant improvement in revenue for FY22 as the group reported Rs.596.44Cr (Job work ~Rs.150Cr) in FY22 against Rs.337.60Cr in FY21. This growth is mainly contributed by increased realisations, improved production. However, EBITDA margins have seen decline to 3.94 percent in FY22; this is due to dependency on job work. In order to capture the increasing demand, the group has hired some looms for weaving. This has impacted the operational margins in FY22. The group has reported revenue of ~Rs.395Cr as on September 31, 2022 (YTD figures). The group is currently (FY23) incurring capex of Rs.23.4Cr for additional looms in Sri Murugan Textiles which is funded by Rs.17Cr bank loans and balance from promoters. Acuité believes that the capex will increase the production capacity of the group and expected to reduce dependency on job work, which is further expected to improve margins in medium term.

Efficient working capital Management

Amman Group's working capital operations are efficient as evident from Gross Current Assets days of (GCA) of 76 days as on March 31, 2022 against 91 days as on March 31, 2021. Debtor days Improved to 34 days as on March 31, 2022 from 38 days in March 31, 2021. Inventory days stood at 27 days as on March 31, 2022. Current ratio stood at 1.36 times as on March 31, 2022. Acuité 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 gearing has improved but stood high at 2.72 times as on March 31, 2022 against 3.21 times as on March 31, 2021. Group's Net worth is moderate at Rs.42.75Cr as on March 31, 2022 against Rs.26.63Cr for previous year. Total outside liabilities to total tangible net worth (TOL/TNW) stood high as on March 31, 2022 at 3.82 times against 4.26 times in previous year. Debt protection metrics of the group are moderate marked by interest coverage ratio, Debt service coverage ratio and Net cash accruals to total debt (NCA/TD)

of 2.70 times, 1.26 times and 0.13 times respectively as on March 31, 2022 against 2.34 times, 1.36 times and 0.09 times as on March 31, 2021.

Susceptibility to fluctuation in raw material prices:

Amman Group's profitable margins are susceptible to fluctuations in the prices of major raw materials such as domestic cotton and Import yarn. 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

- Sustainable improvement in Profitability, Leverage and Solvency position of the group.
- Sustainability of revenue and profitability through dependency on job work.
- Any deterioration in financial risk profile of the group.

Material Covenants

None

Liquidity : Adequate

The liquidity position of the group is adequate. Group has adequate NCA of Rs.14.65Cr in FY22 against debt repayment obligation of Rs.9.76Cr. The group is expected to generate adequate NCA's in the range of Rs.20Cr to Rs.25Cr with repayment obligations of Rs.12.00Cr to Rs.17.5Cr in the medium term. Unencumbered cash and bank balances stood at Rs.0.26Cr as on March 31, 2022 with current ratio of 1.35 times. The cash credit remained highly utilized at an average of 85 percent on consolidated basis of over the past 9 months ending September 2022. Acuite believes that the liquidity of the group will remain adequate in the medium term.

Outlook: Stable

Acuité 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 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 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 of its financial risk profile and liquidity

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	596.44	337.60
PAT	Rs. Cr.	2.66	1.03
PAT Margin	(%)	0.45	0.31
Total Debt/Tangible Net Worth	Times	2.72	3.21
PBDIT/Interest	Times	2.70	2.34

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>
- 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:

None

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Canara Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE BB Stable Assigned
Canara Bank	Not Applicable	Term Loan	Not available	Not available	Not available	8.00	ACUITE BB Stable Assigned
Small Industries Development Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	3.00	ACUITE BB Stable Assigned

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