

Press Release

Sree Kaderi Ambal Mills Private Limited

March 28, 2023

Rating Assigned



Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	55.20	ACUITE BBB- Stable Assigned	-
Bank Loan Ratings	3.80	-	ACUITE A3+ Assigned
Total Outstanding Quantum (Rs. Cr)	59.00	-	-

Rating Rationale

Acuite has assigned its long term rating of '**ACUITE BBB-**' (read as **ACUITE triple 'B minus'**) and short term rating of '**ACUITE A3+**' (read as **ACUITE A three plus**) on the Rs.59.00 crore bank facilities of Sree Kaderi Ambal Mills Private Limited (SKAMPL). The outlook is '**Stable**'.

Rationale for rating

The rating assigned takes into account long track record and experience of management in textile industry which is also reflected through the substantial growth in revenue in FY 2022 to Rs 110 Cr against Rs 60 Cr in FY 2021. Further the rating factors in moderate financial risk profile. However above strengths are partially offset by moderate working capital operations reflected by the company's higher reliance on bank borrowings with an average utilization of 93% for last 6 months ended January 2023 and also susceptibility to volatility in raw material prices and foreign exchange fluctuation risk

About the Company

Sree Kaderi Ambal mills private ltd (SKAMPL) was incorporated in 1983 by Shri.A.R.Sevugan Chettiar, SKAMPL is engaged in manufacturing of variety of yarns. SKAMPL is initially started its operations with 12,428 spindles, now operating with capacity of 56,108 spindles and 11, 376 TFO drum's split with an annual capacity of 9000 tons. Company's manufacturing plant is located at perattukottai village near karaikudi in Tamil Nadu. SKAMPL imports raw material like cotton, polyster, blent mostly from China and involved in manufacturing of 15 -20 varieties of yarns.

Analytical Approach

Acuite has considered standalone business and financial risk profile of Sree Kaderi Ambal Mills Private Ltd(SKAMPL)

Key Rating Drivers

Strengths

Established track record of operations and experiences management in manufacturing of cotton yarn

Sree Kaderi Ambal mills private Ltd (SKAMPL) was incorporated in 1983 by Shri.A.R.Sevugan Chettiar. Company has operational track record of more than three decades in manufacturing of variety of cotton yarns. SKAMPL's longstanding relations with its existing customers and suppliers aid the company in securing repeat orders on a regular basis supported by the timely availability of raw materials. SKAMPL imports raw material like cotton, polyester, blend mostly from China and involved in manufacturing of 20 varieties of yarn. SKAMPL over the past financial year has been focusing on upgradation of the machinery to improve productivity and quality of yarn. Company has achieved 100% compact and carded yarn production capacity. Further, the company is also doing capex for solar power which will reduce the power cost going forward. The revenue of the company has recorded a substantial growth and stood at Rs 110 Cr in FY 2022 as against Rs 60 Cr in FY 2021. Further, the company has already achieved a revenue of Rs 112 Cr till January 2023.

Acuité believes that the company will benefit from established presence in textile industry and extensive experience of promoters.

Moderate financial risk profile

The financial risk profile is moderate marked by healthy net worth, moderate gearing and healthy debt protection measures despite the continuous debt-laden capex. The net worth stood at Rs. 33.25 Cr as on 31 March, 2022 as against Rs. 27.16 Cr as on 31 March, 2021. The increase in net worth is majorly due to the accretion of profits to reserves. The company follows a moderate financial policy reflected through its gearing (debt-equity) which stood at 1.47 times as on 31 March, 2022 as against 1.15 times as on 31 March, 2021. The coverage indicators stood comfortable, marked by interest coverage ratio (ICR) stood at 2.84 times in FY2022 as against 2.38 times in FY2021. The DSCR stood at 2.10 times in FY2022 against 1.90 times in FY2021. The total outside liabilities to tangible net worth (TOL/TNW) stood at 1.81 times as on 31 March 2022 as against 1.57 times as on 31 March, 2021.

Acuité, however, believes that the financial risk profile will continue to remain moderate despite routine capex supported by stable operating margins.

Weaknesses

Moderate Working capital management

SKAMPL's operations are moderately working capital intensive marked by Gross Current Assets (GCA) of 134 days in FY2022 as compared to 130 days in FY2021. The GCA days are mainly dominated by inventory holding period of 80 days in FY2022 as against 86 days in FY2021. The collection period was at 18 days in FY2022 as against 26 days in FY2021. Further, the company's average bank limit utilisation stood at ~93 percent for the last 6 months ended as on January 2023.

Acuite' believes that working capital operations of the company may continue to remain moderate considering the nature of business.

Susceptible to volatility in raw material prices and foreign exchange fluctuation risk

SKAMPL's profitable margins are susceptible to fluctuations in the prices of major raw materials such as domestic and imported cotton, blend and polyester. The main raw material purchased by the company is cotton. Cotton being an agricultural commodity by nature, the margins are susceptible to changes in cotton prices. Cotton availability and price of the same is highly dependent on agro-climatic conditions. Despite the prevalence of Minimum Support Price (MSP), the purchase price depends on the prevailing demand-supply situation, which limits bargaining power with the suppliers as well. As a result, the business is exposed to fluctuations in the foreign exchange rate. Acuité believes that SKAMPL will be able to maintain its operating profitability around existing levels notwithstanding the volatility in prices of its key inputs, on the back of its established position in the domestic markets.

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.
- Any deterioration in Revenue profile and leverage position

Material covenants

None

Liquidity Position: Adequate

SKAMPL's liquidity is adequate marked by healthy generation of net cash accruals to its maturing debt obligations, albeit low level of unencumbered cash and bank balance and higher reliance on bank limits. SKAMPL has generated cash accruals in the range of Rs.2.71-7.49 Cr during last 3 years ending FY2022 as against its mature debt obligations of Rs. 0.71-3.71 Cr for the same period. The company's working capital is moderate as evident from Gross Current Asset (GCA) of 134 days as on 31 March, 2022 as compared to 130 days as on 31 March, 2021. The current ratio stood at 1.58 times as on 31 March 31 2022 against 0.89 in previous year and the fund based limit remains utilized at ~93 percent over the 6 months ended January, 2023. The company maintained low unencumbered cash and bank balances of Rs.0.05 Cr as on 31 March, 2022 against Rs.0.08 Cr in previous year.

Outlook: Stable

Acuité believes that SKAMPL will maintain 'Stable' outlook over the medium term due to extensive experience of its promoters, healthy growth in sales, healthy financial risk profile and efficient working capital management. The rating may be upgraded if the company registers expected or higher-than expected growth in revenues and profitability. Conversely, the outlook may be revised to 'negative' in case of company's inability to achieve the expected increase in revenue and profitability or deterioration in overall financial risk profile

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	110.66	60.03
PAT	Rs. Cr.	4.58	1.53
PAT Margin	(%)	4.14	2.54
Total Debt/Tangible Net Worth	Times	1.47	1.15
PBDIT/Interest	Times	2.84	2.38

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

None

Any other information

None

Applicable Criteria

- Default Recognition :- <https://www.acuite.in/view-rating-criteria-52.htm>
- Entities In Manufacturing Sector:- <https://www.acuite.in/view-rating-criteria-59.htm>
- Rating Process and Timeline: <https://www.acuite.in/view-rating-criteria-67.htm>
- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.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:

Not Applicable

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
ICICI Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	7.00	ACUITE BBB- Stable Assigned
ICICI Bank Ltd	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	Simple	2.00	ACUITE A3+ Assigned
Not Applicable	Not Applicable	Proposed Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	15.00	ACUITE BBB- Stable Assigned
Not Applicable	Not Applicable	Proposed Letter of Credit	Not Applicable	Not Applicable	Not Applicable	Simple	1.80	ACUITE A3+ Assigned
Not Applicable	Not Applicable	Proposed Long Term Loan	Not Applicable	Not Applicable	Not Applicable	Simple	8.97	ACUITE BBB- Stable Assigned
Small Industries Development Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	20.00	ACUITE BBB- Stable Assigned
ICICI Bank Ltd	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	4.23	ACUITE BBB- Stable Assigned

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About Acuité Ratings & Research

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