



**Press Release**  
**SRI MURUGAR SPINNING MILL**  
**September 06, 2024**  
**Rating Assigned**

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	66.00	ACUITE BBB-   Stable   Assigned	-
Total Outstanding Quantum (Rs. Cr)	66.00	-	-

**Rating Rationale**

Acuite has assigned its long-term rating of '**ACUITE BBB-**' (read as **ACUITE triple B minus**) on the Rs. 66 Cr. of Bank loan facilities of Sri Murugar Spinning Mill (SMSM). The outlook is '**Stable**'.

**Rationale for rating assigned**

The assigned rating reflects the partner's expertise and a proven track record of over 20 years in the textile industry. It also considers the firm's asset-light business model, with a moderate gearing ratio of 1.67 times as of March 31, 2024 (Provisional), comfortable debt protection metrics, and an above average financial risk profile. Additionally, the rating incorporates the firm's efficient working capital management and the operational launch of its 2 MW captive solar facility in FY24, which is expected to reduce overall power costs and enhance profitability. However, the rating is constrained by factors such as low profitability, the highly competitive nature of the industry, and the risks associated with the availability and price volatility of raw materials.

**About the Company**

Coimbatore based, Sri Murugar Spinning Mill is a Partnership Firm, founded by Mr. P.V. Devaraj in the year 1997. The firm is engaged in manufacturing of cotton, polyester and blended yarn. They operate as contract manufacturer and is involved in Yarn Conversion activities. Mr. D. Naresh Kumar and Mrs. Prathayani Amirtham are the partners of firm.

**Unsupported Rating**

Not applicable

**Analytical Approach**

Acuite has considered the standalone business and financial risk profile of SMSM to arrive at the rating.

## **Key Rating Drivers**

### **Strengths**

#### **Experienced management and established track record of operations**

Sri Murugar Spinning mill (SMSM) is a partnership firm incorporated in 1997 by Mr.P.V. Devaraj. The firm is engaged in manufacturing of MMF (manmade fibre) yarn and blended yarn

through polyster and viscose. with an installed capacity of 41856 spindles, the firm can produce the yarn count's ranging from No 30s to No 72s in both single and multi fold yarn as well as other value-added yarns. The firm is currently managed by Mr. D. Naresh Kumar and Mrs. Prathayani Amirtham who posses more than 2 decades of industry experience. SMSM cultivated long-term relations with their customers, ensuring repetitive orders to the firm. To retain the customers and to maintain low gearing ratio the management has adopted an asset light model, by relying more on job works to minimize the capital expenditure. This strategy has led to a compounded annual growth rate of 30 percent over the past 4 years. During FY24 (Prov.) SMSM's revenue increased to Rs.428.92 Cr. compared to Rs.367.10 Cr. in FY23 and Rs.234.99 Cr. in FY22. The firm's revenue growth has been driven increased order flow, reliance on job work and expansion of in-house spindles aided in firm's revenue growth. Job work accounts for more than 2/3rd of the firm's total revenue, resulting in narrow operating profit margins of 3-5 percent over the past three years. The installation of 2 Mega Watt solar plant during FY2024 is expected to slightly improve the operating margins over the medium term. Acuite expects, the experience of the promoters and established track record of the firm will help the business risk profile over the medium term.

#### **Above average financial risk profile:**

SMSM's financial risk profile is above average marked by moderate network, moderate gearing and above average debt protection metrics. SMSM's net worth stood Rs.35.73 Cr. as on March 31, 2024 (Prov) as against Rs.29.60 Cr. as on 31 March, 2023 and Rs.27.25 Cr. as on March 31st 2022. The improvement in network is due to accretion of profits to the reserves. The total debt of Rs.59.84 Cr. as on March 31, 2024 (Prov) consists of Rs. 13.93 Cr. term loans, short term working capital debt of Rs.37.84 Cr, buyer's credit convertible to term loan of Rs.8.63 Cr. and current portion of long term debt of Rs.3.69 Cr. The gearing and total outside liabilities to tangible net worth (TOL/TNW) levels stood at 1.67 times and 2.12 times as on March 31, 2024 (Prov.) compared to 1.46 times and 1.72 times as on March 31, 2023 respectively. Interest coverage ratio stood comfortable at 2.19 times FY24 (prov) and 2.60 times FY23 and 3.19 times for FY22. Debt service coverage ratio (DSCR) stood at 2.19 times for FY24 (Prov) as against 2.60 times for FY23 and 3.19 times for FY22. Acuite believes that the financial risk profile of the firm will improve over the medium term due to its conservative leverage policy and increasing scale of operations.

#### **Efficient working capital operations**

SMSM's operations are working capital efficient as reflected by its gross current asset (GCA) days of around 59 days in FY24 (Prov) as against 51 days in FY23 and 68 days in FY22, primarily driven by low inventory days. The raw material, polyester and viscose is a man made fibre which is available throughout the year irrespective of the seasons. Resulting in lower inventory days at 32 days in FY24 (Prov) as against 27 days in FY23 and 34 days in FY22. However, the bank limit utilization of the firm remained high at average utilization of 89 percent during the last 15 months ending June'2024. SMSM's debtor's days stood in the range of 17 to 27 days during previous 3 years. Creditor's days stood low between 5 days to 16 days during last 3 years. Acuite believes that the working capital operations of the firm will remain efficiently, driven by lower inventory days.

#### **Weaknesses**

##### **Thin operating margins:**

SMSM's operating margins stood in the range of 3-5 percent over the past three years, which are relatively thin compared to the other industry players. Nearly 2/3rd of the revenue is generated through job works, leading to thin operating margins. Consequently, the firm's net cash accruals are below Rs.10Cr over the past three years. However, the firm benefits from a fixed conversion charges, which ensures an EBITDA margin around 3.5-5.5 percent. Despite the thin margins, the firm's liquidity position is adequate, with sufficient NCA's against the debt repayment obligations. Going forward, any infusion of debt towards modernization or expansion of existing capacity will pose a liquidity threat.

##### **Highly competitive nature of industry and Susceptible to fluctuations of raw material prices.**

The textile industry's highly competitive environment presents significant challenges, potentially impacting the firm's market position and profitability. Additionally, the business faces risks associated with the availability and fluctuation of raw material prices, which can lead to unpredictable cost structures and supply chain issues. These factors contribute to financial instability and may affect the firm's ability to maintain consistent profitability and operational efficiency.

### **Partnership nature of business**

SMSM is a partnership firm and is exposed to the likeliness of the partners withdrawing capital from the business. Acuité believes that any substantial withdrawal of capital by the partners in future is likely to have an adverse impact on the capital structure.

## **Rating Sensitivities**

### **Positive**

- Sustainable improvement in Revenue and Profitability
- Improvement in financial risk profile.

### **Negative**

- Elongation of working capital cycle leading to stretch in liquidity
- Any decline in profitability margins, resulting in deterioration of financial risk profile

## **Liquidity Position: Adequate**

SMSM's liquidity position is adequate marked by adequate net cash accruals against its repayment obligations. Net cash accruals of the firm stood at Rs. 9.11 Cr. in FY2024 (prov) against the maturing debt obligation of Rs 3.69 Cr. in FY2024 (Prov). Net cash accruals during FY2025 to FY2026 are expected to be in the range of Rs. 14.80 Cr. to Rs.17.72 Cr. against debt obligation ranging between Rs 2.97 Cr. to Rs. 3.80 Cr. during the same period. SMSM's current ratio stood at 1.17 times and cash and bank balances stood at Rs.0.15 Cr. as on March 31, 2024. Average bank limit utilization stood at 89 percent over the last 15 months ending June 2024.

## **Outlook: Stable**

Acuité believes that SMSM will maintain 'Stable' outlook over the medium term due to extensive experience of its promoters and healthy growth in sales. The outlook may be revised to 'Positive' if the firm registers expected or higher-than expected growth in revenues and profitability while improving its financial risk profile. Conversely, the outlook may be revised to 'Negative' in case of elongation of working capital cycle and decline of profitability margins resulting in deterioration of overall financial risk profile.

## **Other Factors affecting Rating**

None

## Key Financials

Particulars	Unit	FY 24 (Provisional)	FY 23 (Actual)
Operating Income	Rs. Cr.	428.92	367.10
PAT	Rs. Cr.	4.31	3.03
PAT Margin	(%)	1.00	0.83
Total Debt/Tangible Net Worth	Times	1.67	1.46
PBDIT/Interest	Times	2.19	2.60

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

India Ratings vide its press release dated February 08, 2024, Reaffirmed rating of Sri Murugar Spinning Mill (SMSM) to IND BB+/Negative/A4+ as "ISSUER NOT CO-OPERATING" on account of lack of adequate information required for monitoring of ratings.

### Any other information

None

### Applicable Criteria

- Default Recognition :- <https://www.acuite.in/view-rating-criteria-52.htm>
- Rating Process and Timeline: <https://www.acuite.in/view-rating-criteria-67.htm>
- Manufacturing Entities: <https://www.acuite.in/view-rating-criteria-59.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](http://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
Federal Bank	Not avl. / Not appl.	Cash Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	40.00	ACUITE BBB-   Stable   Assigned
Federal Bank	Not avl. / Not appl.	Covid Emergency Line.	Not avl. / Not appl.	Not avl. / Not appl.	29 Sep 2024	Simple	0.39	ACUITE BBB-   Stable   Assigned
Federal Bank	Not avl. / Not appl.	Covid Emergency Line.	Not avl. / Not appl.	Not avl. / Not appl.	19 Nov 2026	Simple	2.06	ACUITE BBB-   Stable   Assigned
Not Applicable	Not avl. / Not appl.	Proposed Long Term Bank Facility	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	0.29	ACUITE BBB-   Stable   Assigned
Federal Bank	Not avl. / Not appl.	Term Loan	Not avl. / Not appl.	Not avl. / Not appl.	09 Oct 2032	Simple	9.13	ACUITE BBB-   Stable   Assigned
Federal Bank	Not avl. / Not appl.	Term Loan	Not avl. / Not appl.	Not avl. / Not appl.	09 Oct 2030	Simple	3.98	ACUITE BBB-   Stable   Assigned
Federal Bank	Not avl. / Not appl.	Term Loan	Not avl. / Not appl.	Not avl. / Not appl.	17 Jun 2025	Simple	0.20	ACUITE BBB-   Stable   Assigned
Federal Bank	Not avl. / Not appl.	Term Loan	Not avl. / Not appl.	Not avl. / Not appl.	28 Apr 2031	Simple	4.74	ACUITE BBB-   Stable   Assigned
Federal Bank	Not avl. / Not appl.	Term Loan	Not avl. / Not appl.	Not avl. / Not appl.	27 Mar 2027	Simple	1.00	ACUITE BBB-   Stable   Assigned
Federal Bank	Not avl. / Not appl.	Term Loan	Not avl. / Not appl.	Not avl. / Not appl.	06 Oct 2030	Simple	2.10	ACUITE BBB-   Stable   Assigned
Federal Bank	Not avl. / Not appl.	Term Loan	Not avl. / Not appl.	Not avl. / Not appl.	06 Oct 2030	Simple	2.11	ACUITE BBB-   Stable   Assigned

## Contacts

Analytical	Rating Desk
Mohit Jain Senior Vice President-Rating Operations Tel: 022-49294017 <a href="mailto:mohit.jain@acuite.in">mohit.jain@acuite.in</a>  Gnanreddy Rakesh Reddy Senior Analyst-Rating Operations Tel: 022-49294065 <a href="mailto:rakesh.reddy@acuite.in">rakesh.reddy@acuite.in</a>	Varsha Bist Associate Vice President-Rating Administration Tel: 022-49294011 <a href="mailto:rating.desk@acuite.in">rating.desk@acuite.in</a>

### 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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