



Press Release
Santhi Processing Unit Private Limited
January 04, 2024
Rating Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	43.00	ACUITE BBB- Stable Reaffirmed	-
Bank Loan Ratings	24.50	-	ACUITE A3 Reaffirmed
Total Outstanding Quantum (Rs. Cr)	67.50	-	-

Rating Rationale

Acuite has reaffirmed its long term rating of '**ACUITE BBB-**' (read as **ACUITE triple B minus**) and the short term rating of **ACUITE A3 (Read as ACUITE A Three)** to the Rs.67.50 Cr bank facilities of Santhi Processing Unit Private Limited (SPUPL). The Outlook is '**Stable**'.

Rationale for rating reaffirmation:

The reaffirmation of ratings considers the stable operating performance of Santhi Processing Unit Private Limited's (SPUPL) during FY23, healthy financial risk profile and adequate liquidity position. The company has registered revenue of Rs.351.82Cr during FY23 posting a growth 7 percent against revenue of Rs.392.22Cr of previous year. The growth in revenue is contributed by higher sales volume. Further to this the company has registered revenue of Rs.194Cr till November 2023 which is in line with the revenue of same period during last year. The company is depending on job work as the existing looms have been fully utilized which has resulted in lower EBITDA margins at 6.62 percent for last two consecutive years. However, the margins are expected to improve from the current year on account of savings from captive power and on-going capex worth Rs.38Cr towards expansion of captive solar power generation to 5.9 Megawatt (MW) and expansion of in house Looms capacity which reduces the dependency on job work.

The rating also draws comfort from the above average financial risk profile of the company which is expected to be healthy despite the debt infusion towards capex, efficient working capital operations and adequate liquidity position. Going forward, the company's ability in improving the EBITDA margins is key monitorable.

About the Company

Santhi Processing Unit Private Limited (SPUPL) was established in 1980 by Mr. S. Duraisamy and was later reconstituted to a private limited company in 2000. In 1994, Santhi Processing Unit Private Limited (SPUPL) has established their own yarn dyeing and fabric dyeing unit. Fabric finishing division was established in 1996. The current directors of the company are Mrs. Duraisamy Sumathi, Mr. Sinnusamy Duraisamy and Mrs. Vinodini Duraisamy Presently Santhi Processing Unit Private Limited is a fully integrated textile manufacturing unit (Spinning to Fabric Finishing) delivering services to leading international brands like Marco polo, Mothercare, Tommy Hilfiger and others.

Unsupported Rating
Not Applicable

Analytical Approach

Acuité has considered the standalone business and financial risk profile of Santhi Processing Unit Private Limited (SPUPL) to arrive at the rating

Key Rating Drivers

Strengths

Established track record and steady improvement in operations:

Santhi Processing Unit Private Limited (SPUPL) is promoted by Mr. Durai swami who possess a vast experience of 40 years in the textile industry. With a long track record of operations, SPUPL has become one of the renowned integrated textile player with a total spinning capacity of 14,600 spindles and 82 looms along with 4.45 megawatt (MW) solar power and Windmills for captive consumption. The promoter's extensive industry experience and established existence has helped the company to establish a longstanding relationship with its key suppliers and customers. The extensive experience of promoter is also reflected through significant increase in revenue over the years. During last three years company's revenue has grown at a Compounded Annual Growth Rate (CAGR) of ~40 percent. The significant growth in revenue is mainly due to higher sale of quantity which were manufactured by giving on job work basis. This was done to capture the increased demand of fabrics in the market and yield higher margins. SPUPL depends on job work of looms as the current installed capacity can generate revenue upto Rs.150Cr which has resulted in lower EBITDA margins during last 2 years at 6.62 percent. However, there is steady growth in absolute EBITDA from Rs.14.15Cr in FY21 to Rs.21.80Cr in FY22 and Rs.23.29Cr during FY23.

Despite the volatility in raw material prices and realization rates SPUPL has registered revenue of Rs.194.27Cr till November 2023 against revenue of Rs.206Cr for the same period of FY23 and has shown improvement in EBITDA margin of 8 percent till November 2023 and expected to close the year in the range of 7-7.5 percent. The expected improvement in EBITDA margin is on account of savings from the captive power. Acuite believes that SPUPL will continue to benefit from the partners established presence in the textile industry.

Healthy financial risk profile

SPUPL's financial risk profile is above average, marked by moderate network, healthy capital structure and debt protection metrics. Company's net worth stood at Rs. 66.12 Cr as on March 31, 2023 as compared to Rs. 59.18 Cr as on March 31, 2022. Improvement in network is on account of accretion for profits to reserves. SPUPL's capital structure is healthy marked by gearing and total outside liabilities to total net worth (TOL/TNW) of 0.64 times and 0.85 times respectively as on March 31, 2023 as against 0.78 times and 1.22 times as on March 31, 2022. The comfortable profitability coupled with healthy gearing levels has resulted in comfortable debt protection metrics with interest coverage of 4.91 times and NCA/TD of 0.39 times for FY23 as against 3.16 times and 0.28 times, respectively, for FY22. Besides Debt service coverage ratio stood at 1.63 times as on March 31, 2023.

Acuité believes that despite the debt funded capex company's financial risk profile will remain above average on account of its improving scale of operations and expected improvement in profitability.

Efficient working capital operations

SPUPL's working capital operations are efficiently managed as reflected by its gross current asset (GCA) days of 60 days during FY23. The company maintains inventory of about 30-45 days and gives credit period of 15-30 days to its customers. Debtor days stood in the range of 25-30 days during the last two years. Timely collection of receivables has led to timely payment to its creditors. The company makes upfront payment to majority of its suppliers. The efficient working capital management and moderate accruals lead to moderate utilisation of its working capital limits at an average of 73 percent over the past 12 months ended September 2023. Acuité 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

Intense competition in the industry

The textile industry is highly fragmented, comprising several small and mid-sized players and the operating margins are susceptible to changes in cotton and yarn prices which are highly volatile. The activities in textiles range from the production of natural raw materials such as cotton, jute, silk and wool to the manufacture of quality products such as viscose fibre, synthetic filament and spun yarn. The industry is often plagued by obsolescence, unhealthy regulations. This emphasises the need for strengthening the management mechanism in the industry, to face the emerging challenges. SPUPPL is currently incurring capex around Rs.21.00 Cr for Solar Power which could cover upto 60-70% of the electricity usage and Rs.17Cr towards expansion in house looms by another 26 looms. This could reduce the dependency on job work of the yarn to fabric and improve the EBITDA margins. Acuite believes that SPUPPL have the experienced management to overcome these demand and price related fluctuations.

Rating Sensitivities

- Sustainability of revenue and profitability through reducing dependency on job work
- Any deterioration in working capital management leading to deterioration in financial risk profile

Liquidity Position : Adequate

SPUPPL's has adequate liquidity marked by comfortable cash accruals to its debt obligations. The company has reported cash accruals of Rs.16.32 Cr in FY23 against its repayment obligations of Rs.8.16 Cr during the same period. The company's accruals are expected in the range of Rs19.50-22.00 Cr for FY24-26 against its repayment obligations of Rs.5.5-8.2 Cr during the same period. The working capital operations are efficient as reflected by its Gross Current Asset (GCA) days of 60 in FY23, leading to moderate utilisation of its limits at about 73 per cent during the last 12 months' period ended September, 2023. The current ratio of the company stands at 1.71 times and cash and bank balances stood low at Rs.0.05Cr as on March 31, 2023. Acuite believes that the liquidity of the company is likely to remain adequate over the medium term

Outlook: Stable

Acuite believes that SPUPPL will continue to benefit over the medium term due to its experienced management and established relation with its suppliers and customers. The outlook may be revised to 'Positive', in case of continued traction in total operating income and sustainable profitability given the limited capacity available with improvement in working capital management. Conversely, the outlook may be revised to 'Negative' in case of any significant stretch in its working capital management or larger-than-expected debt-funded capital expenditure leads 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.	351.82	329.22
PAT	Rs. Cr.	8.92	6.48
PAT Margin	(%)	2.54	1.97
Total Debt/Tangible Net Worth	Times	0.64	0.78
PBDIT/Interest	Times	4.91	3.16

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

Not Applicable

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>
- Complexity Level Of Financial Instruments: <https://www.acuite.in/view-rating-criteria-55.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
06 Oct 2022	Term Loan	Long Term	1.55	ACUITE BBB- Stable (Assigned)
	Term Loan	Long Term	0.24	ACUITE BBB- Stable (Assigned)
	Term Loan	Long Term	2.13	ACUITE BBB- Stable (Assigned)
	Bank Guarantee	Short Term	0.50	ACUITE A3 (Assigned)
	Letter of Credit	Short Term	4.00	ACUITE A3 (Assigned)
	Term Loan	Long Term	5.87	ACUITE BBB- Stable (Assigned)
	Term Loan	Long Term	1.10	ACUITE BBB- Stable (Assigned)
	Bills Discounting	Short Term	25.00	ACUITE A3 (Assigned)
	Term Loan	Long Term	2.51	ACUITE BBB- Stable (Assigned)
	Proposed Bank Facility	Long Term	0.07	ACUITE BBB- Stable (Assigned)
	Term Loan	Long Term	4.53	ACUITE BBB- Stable (Assigned)
	Cash Credit	Long Term	7.50	ACUITE BBB- Stable (Assigned)
	Cash Credit	Long Term	25.00	ACUITE BBB- Stable (Reaffirmed)
16 Jun 2022	Cash Credit	Long Term	12.50	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
Canara Bank	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	Simple	0.50	ACUITE A3 Reaffirmed
Canara Bank	Not Applicable	Bills Discounting	Not Applicable	Not Applicable	Not Applicable	Simple	20.00	ACUITE A3 Reaffirmed
Canara Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	25.00	ACUITE BBB- Stable Reaffirmed
Canara Bank	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	Simple	4.00	ACUITE A3 Reaffirmed
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Simple	0.49	ACUITE BBB- Stable Reaffirmed
Canara Bank	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	2.11	ACUITE BBB- Stable Reaffirmed
Canara Bank	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	3.21	ACUITE BBB- Stable Reaffirmed
Canara Bank	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	2.38	ACUITE BBB- Stable Reaffirmed
Canara Bank	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	3.70	ACUITE BBB- Stable Reaffirmed
Canara Bank	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	6.11	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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