

Press Release

Shakthi Murugan Textiles

January 23, 2023



Rating Reaffirmed & Withdrawn

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	12.22	ACUITE B+ Reaffirmed & Withdrawn	-
Bank Loan Ratings	1.57	-	ACUITE A4 Reaffirmed & Withdrawn
Total Outstanding Quantum (Rs. Cr)	0.00	-	-
Total Withdrawn Quantum (Rs. Cr)	13.79	-	-

Rating Rationale

Acuite has reaffirmed and withdrawn the long-term rating to '**ACUITE B+**' (read as **ACUITE B plus**) and the short-term rating of '**ACUITE A4**' (read as **ACUITE A four**) on the Rs. 13.79 crore bank facilities of Shakthi Murugan Textiles (SMT).

The rating has been withdrawn on Acuite's policy of withdrawal of ratings. The rating has been withdrawn on account of the request received from the company, and the NOC received from the banker.

Rationale for the reaffirmation

The rating reaffirmation takes into account of the improvement in the operating income of the company, The rating also draws comfort from experienced promoter and the company's long track record in the industry. These strengths are however, offset by the working capital intensive in nature of operations along with average financial risk profile.

About the Company

SMT, established in 1999, is a Coimbatore-based partnership firm promoted by Mr. R. Murugesan, Mr. Velumani Shanmugan, Ms. Shanti Subramaniam and Mr. M. Naveen. SMT is engaged in manufacturing of cotton yarn and weaving grey fabrics. The firm is also engaged in generating wind power which used for both captive consumption and sale to TNEB. The day-to-day operations of the firm are managed by Mr. R. Murugesan and Mr. M. Naveen, partners of the firm.

Analytical Approach

Acuite has considered the standalone business and financial risk profiles of SMT to arrive at the rating.

Key Rating Drivers

Strengths

Extensive industry experience of the promoters

The promoters have an experience of over a decade in the textile industry. This has given them an understanding of the dynamics of the market and enabled them to establish relationships with suppliers and customers. Acuité believes that the experience of the promoters will continue to support the company's growth plans going forward.

Average financial risk profile

The group's average financial risk profile is marked by healthy net worth, comfortable gearing and moderate debt protection metrics. The tangible net worth has increased to Rs. 112.82 Cr. as on 31st March 2022 as compared to Rs.107.42 Cr as on 31st March 2021 due to accretion of reserves. The gearing of the group's stood at 0.33 times as on 31st March 2022 as compared to 0.28 times as on 31st March 2021. The Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood low at 0.49 times as on 31st March 2022 as against 0.48 times as on 31st March 2021. The debt protection metrics of the group's marked by comfortable Interest Coverage Ratio (ICR) at 2.61 times as on 31st March 2022 as compared to 6.48 times as on 31st March 2021 but moderate Debt Service Coverage Ratio at 1.23 times as on 31st March 2022 as compared to 3.20 times as on 31st March 2021. Net Cash Accruals/Total Debt (NCA/TD) stood low at 0.18 times as on 31st March 2022. Acuité believes that financial risk profile is expected to be remain average over the medium term in absence of major debt funded capex plans.

Weaknesses

Exposure to supplier concentration risk, and susceptibility to volatility in raw material prices

Supplier concentration and volatility in raw material prices continue to constrain the business risk profile. The entities in the textile manmade segment have limited price negotiation capability with their supplier due to its high dependence on them. The primary raw material comprises grey cotton, the prices of which are volatile. Because of the commoditized nature, their prices are market-driven, resulting in limited pricing flexibility with customers. Therefore, margins are susceptible to variations in raw material prices, as reflected in its fluctuating operating margin.

Rating Sensitivities

None

Material covenants

None

Liquidity Position Adequate

The firm's liquidity position is adequate marked by comfortable current ratio at 1.90 times as on March 31, 2022 as compared to 1.30 times as on 31st March, 2021. The net cash accruals stood at Rs.9.82 Cr in FY2022 as against nil CPLTD. The cash and bank balances of the firm stood at Rs.0.21 Cr in FY2022 as compared to Rs.1.14 Cr in FY2021. The working capital-intensive nature of operations of the firm is marked by Gross Current Assets (GCA) of 107 days as on March 31, 2022 as against 156 days as on March 31, 2021. Acuité believes that going forward the firm will maintain adequate liquidity position due to steady accruals.

Outlook

Not Applicable

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	44.72	19.14
PAT	Rs. Cr.	7.21	(1.06)
PAT Margin	(%)	16.13	(5.55)
Total Debt/Tangible Net Worth	Times	0.17	0.73
PBDIT/Interest	Times	15.11	1.25

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>
- 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

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
09 Jun 2022	Term Loan	Long Term	6.22	ACUITE B+ (Issuer not co-operating*)
	Cash Credit	Long Term	6.00	ACUITE B+ (Issuer not co-operating*)
	Bank Guarantee	Short Term	1.57	ACUITE A4 (Issuer not co-operating*)
08 Mar 2021	Term Loan	Long Term	6.22	ACUITE B+ (Downgraded and Issuer not co-operating*)
	Cash Credit	Long Term	6.00	ACUITE B+ (Downgraded and Issuer not co-operating*)
	Bank Guarantee	Short Term	1.57	ACUITE A4 (Issuer not co-operating*)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Union Bank of India	Not Applicable	Bank Guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	Simple	1.57	ACUITE A4 Reaffirmed & Withdrawn
Union Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	6.00	ACUITE B+ Reaffirmed & Withdrawn
Union Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	6.22	ACUITE B+ Reaffirmed & Withdrawn

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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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