



## Rating Rationale

**Saravanagiri Spinning Mills Pvt.Ltd.**

**20 September 2017**

**Brickwork Ratings upgrades the rating for the Bank Loan Facilities of Saravanagiri Spinning Mills Pvt.Ltd.**

### Particulars

Facility Rated	Amount (Rs. Crs)		Tenure	Rating *	
	Previous	Present		Present	Previous November 2016
<b><u>Fund Based</u></b>					
<b>Cash Credit</b>	<b>9.00</b>	<b>9.00</b>	<b>Long Term</b>	<b>Upgraded to BWR BB</b> (Pronounced BWR Double B ) (Outlook : Stable)	<b>BWR BB-</b> (Pronounced BWR Double B Minus ) (Outlook : Stable)
<b>Term Loan</b>	<b>21.00</b>	<b>19.30</b>			
<b><u>Non-fund Based</u></b>					
<b>Bank Guarantee</b>	<b>1.00</b>	<b>1.00</b>	<b>Short term</b>	<b>Reaffirmed at BWR A4</b> (Pronounced BWR A four )	<b>BWR A4</b> (Pronounced BWR A four )
<b>Total</b>	<b>31.00</b>	<b>29.30</b>	<b>(INR Twenty Nine Crores and Thirty Lakhs Only)</b>		

^ Please refer to BWR website [www.brickworkratings.com/](http://www.brickworkratings.com/) for definition of the ratings

### Rating upgraded

#### Rationale/Description of Key Rating Drivers/Rating sensitivities:

BWR has principally relied upon the audited financial results up to FY17, projected financial of FY18 & FY19, publicly available information and information/clarifications provided by the company.

The rating upgrades has factored the extensive experience of the promoters in the spinning industry, well-established clientele, moderate networth and debt protection metrics and improved revenue levels for FY17. The rating is constrained by moderate scale of operations in a highly fragmented industry, limited track record of operations, high gearing and susceptibility of profit margins to volatile raw material prices.



### **Rating Outlook: Stable**

BWR believes that Saravanagiri Spinning Mills Pvt.Ltd.'s business risk profile will be maintained over the medium term. The 'Stable' outlook indicates a low likelihood of rating change over the medium term. The rating outlook may be revised to 'Positive' in case the revenues and profit show sustained improvement. The rating outlook may be revised to 'Negative' if the revenues go down and profit margins show lower than expected figures.

### **Key rating drivers:**

#### **Strengths:**

- Extensive experience of promoters of more than four decades has helped the company in building strong customer and supplier relationships. Established relationship with customers and suppliers help the company in uninterrupted raw material procurement and repeated orders from customer.
- The commercial production of the unit commenced on May, 2015 within limited track record of operations, the company's revenue has increased to Rs.54.70 crs in FY17 as compared to Rs.23.01 cr. in FY16.
- SSMPL's moderate Networth as on 31.03.2017 is Rs.10.49 crs. And it has reported moderate debt coverage indicator with an Interest coverage Ratio(ISCR) of 1.95 times as on March 31, 2017 and Debt Coverage Ratio of 1.24 times as March 31, 2017.

#### **Weakness:**

- SSMPL has a moderate scale of operations as reflected by its total operating income of Rs.54.70 crore for the year FY17 (refers to the period April 1 to March 31). The spinning industry is highly fragmented because of the presence of large number of players which results in intense competition.
- One account of the recent debt funded capital structure, gearing of the company recorded as 3.18 times in FY17 on account of external borrowings eventhough it includes the unsecured loan of Rs.5.28 crs from the directors.
- The intense competition limits the company's bargaining power with its customers.The textile industry's profitability margins are highly correlated with fluctuations in raw material prices.

### **About the Company**

Saravanagiri Spinning Mill Limited (SSML) was incorporated in 2011 and the company has been converted into a Private Ltd. Company on 26th February, 2016 is registered & located at Erode, Tamilnadu. The company is engaged in manufacturing viscose yarn in various counts. The installed capacity of the unit is 12768 spindles. The commercial production of the unit commenced from May, 2015 and the capacity utilization of the unit is at 98%. The company procures raw material from neighbouring states like Andhra Pradesh, Karnataka and Gujarat.



### Management Profile

SSML's directors are Mr.R.K. Sivananthan, Mr.M.Lalitikumar and Mr.E.P. Shanmugasundaram. Mr.R.K.Sivananthan is the Managing Director and has a business experience of more than four decades in the textile sector. Mr.M.Lalitikumar and Mr.E.P.Shanmugasundaram both have over 35 and 15 years of experience respectively in the same line of business.

### Company Financial Performance

SSMPL has reported a profit after tax (PAT) of 0.43 crs. on Net Sales of Rs.54.70 crs.for FY17 as against profit after tax (PAT) of Rs.0.07 crs. on Net Sales of Rs.23.01 crs for FY16. Tangible net worth stood as on March 31, 2017 was Rs.10.49 crs. Debt-Equity stood at 3.18 times in FY17. Current ratio stood at 1.05 times in FY17.

### Rating History for the last three years (including withdrawn/suspended ratings)

Sl. No.	Instrument/Facility	Current Rating (Year 2017)			Rating History		
		Type (Long Term/Short Term)	Amount (Rs Crs)	Rating	November 15, 2016	August 21, 2015	Date in 2014
1	Cash Credit*	Long Term	9.00	<b>BWR BB</b> <b>(Outlook: Stable)</b>	<b>BWR BB-</b> <b>(Outlook: Stable)</b>	<b>BWR BB-</b> <b>(Outlook: Stable)</b>	NIL
2	Term Loan	Long Term	19.30*				
3	Bank Guarantee	Short Term	1.00	<b>BWR A4</b>	<b>BWR A4</b>	<b>BWR A4</b>	
	Total		29.30	<b>INR Twenty Nine Crore and Thirty Lakhs only</b>			

\*Termloan o/s as on 18.08.17

Status of non-cooperation with previous CRA (if applicable) –Not Applicable

Any other information: Not Applicable

**Key Financials:**

Particulars	FY16 Audited	FY17 Audited
Net Revenue (Rs.Crs)	23.01	54.70
EBITDA (Rs.Crs)	3.23	6.81
PAT (Rs.Crs)	0.07	0.43
Tangible Net Worth (Rs.Crs)	10.01	10.49
Total Debt/TNW (Times)	3.16	3.18
Current Ratio (Times)	1.10	1.05

**Hyperlink/Reference to applicable Criteria**

- [General Criteria](#)
- [Approach to Financial Ratios](#)
- [Manufacturing Companies](#)
- [Short Term Debt](#)

For any other criteria obtain hyperlinks from website

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**Note on complexity levels of the rated instrument:**

BWR complexity levels are meant for educating investors. The BWR complexity levels are available at [www.brickworkratings.com/download/ComplexityLevels.pdf](http://www.brickworkratings.com/download/ComplexityLevels.pdf) Investors queries can be sent to [info@brickworkratings.com](mailto:info@brickworkratings.com).

**About Brickwork Ratings**

Brickwork Ratings (BWR), a SEBI registered Credit Rating Agency, has also been accredited by RBI and empaneled by NSIC, offers Bank Loan, NCD, Commercial Paper, MSME ratings and grading services. NABARD has empaneled Brickwork for MFI and NGO grading. BWR is accredited by IREDA & the Ministry of New and Renewable Energy (MNRE), Government of India. Brickwork Ratings has Canara Bank, a Nationalized Bank, as its promoter and strategic partner.



BWR has its corporate office in Bengaluru and a country-wide presence with its offices in Ahmedabad, Chandigarh, Chennai, Guwahati, Hyderabad, Kolkata, Mumbai and New Delhi along with representatives in 150+ locations. BWR has rated debt instruments/bonds/bank loans, securitized paper of over ₹ 9,30,000 Cr. In addition, BWR has rated about 5000 MSMEs. Also, Fixed Deposits and Commercial Papers etc. worth over ₹19,700 Cr have been rated. Brickwork has a major presence in rating of nearly 100 cities.

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