

## Sarveswara Mills India Private Limited

March 02, 2021

### Ratings

Facilities	Amount(Rs. crore)	Rating1	Rating Action
Long Term Bank Facilities	0.40 (Reduced from 1.24)	CARE BB; Stable (Double B; Outlook: Stable )	Reaffirmed
Short Term Bank Facilities	5.91	CARE A4 (A Four )	Reaffirmed
<b>Total Bank Facilities</b>	<b>6.31</b> <b>(Rs. Six Crore and Thirty-One Lakhs Only)</b>		

*Details of instruments/facilities in Annexure-1*

### Detailed Rationale & Key Rating Drivers

The rating assigned to the bank facilities of Sarveswara Mills India Private Limited (SMIPL) continues to be tempered by small scale of operations, competition due to fragmented nature of industry, susceptibility to profitability margins due to raw material price fluctuation risk. The rating also takes into account increase in total operating income and decline in PBILDT margin.

However, the rating continues to derive benefits vast experience of the promoters with long track record of operation, satisfactory capital structure, comfortable debt coverage indicators and satisfactory working capital cycle (refers to period April 01 to March 31), captive power source, established relationship with suppliers due to long standing presence in the market coupled with strong distribution network and stable demand for UPVC products.

### Rating sensitivities

#### Positive Factors

- Consistent increase in company's scale of operations above Rs. 40 crore while maintaining minimum PBILDT margin above 16% in future years.
- Improving operating cycle which results in less reliance on working capital borrowings.

#### Negative Factors

- Any decrease in scale of operations along with decline in profitability margin with PBILDT margin falling below 12% in future.
- Any deterioration in overall gearing above 1.00 times and interest coverage below 3.00 times in any of the years going forward

### Detailed description of the key rating drivers

#### Key Rating Weaknesses

##### **Small scale of operations with decline in PBILDT margin**

The scale of operations of the company remained small marked by total operating income which increased by 5% to Rs. 30.88 crore in FY20 as against Rs. 29.28 crore in FY19. The networth of the company also increased to Rs. 6.81 crore as on March 31, 2020 due to accretion of profit.

The company has reported decline in PBILDT margin by 173bps to 12.30% in FY20 as against 14.03% in FY19 owing to increase in cost of raw materials followed by increase in employee costs, power and fuel costs. However, the PAT margin of the company has risen to 2.22% in FY20 from 1.83% in FY19 on account of decrease in interest and finance charges.

##### **Competition due to fragmented nature of industry**

SMIPL's stiff competition in the business from large number of established and unorganized players in the market. The competition has increased due to entry of multinationals in domestic market. Fast changing in models are difficult to adapt by the small-scale sector hence the competition has increased in the domestic market as well as international market.

##### **Susceptibility to profitability margins due to raw material price fluctuation risk**

SMIPL also do export sales, exposing the profitability margins to susceptible in fluctuation of foreign exchange prices. The company receives payment from its customers at current exchange rate. The company does not have any hedging mechanism to avoid fluctuation in foreign exchange prices.

#### Key Rating Strengths

##### **Experience of promoters with long track record of operations**

Sarveswara Mills India Private Limited (SMIPL) was promoted by Mr. G.S. Senthil, Managing Director qualified in Bachelor of Arts with vast experience in similar industry for about a decade and also has an experience in production department for about two years. Mr. Siva Kumar, Director qualified in Bachelor of Computer Application has an extensive experience in similar industry for more than a decade and prior to establishing SMIPL; he was working in production department for about two years. Mr. R. P. Chandrasekaran and Mr. S. Palanisamy have an experience in agriculture industry. At present, the day to

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and other CARE publications

day operations of the company are handled by Mr. G.S. Senthil. The SMIPL has started its commercial operations from 2008. The long track record of operations with experience of promoters benefits the company to receive orders from existing and new customers.

#### ***Increase in total operating income in FY20***

The company's total operating income has increased by 5% to Rs. 30.88 crore in FY20 as against Rs. 29.28 crore in FY19. During FY20, the company's sales volume has increased backed by increase in volume of sales at the back of increase in order inflows from existing clientele. The company sold Upvc profiles and Upvc windows to 2569 tonne and 4.80 lakh sq. ft. respectively in FY20 as against 2258 tonne and 4.56 lakh sq. ft. in FY19. The company derived 76% of income from Upvc profiles and rest from Upvc Windows and window hardware and accessories. Further, the company also generates income from windmill generation, EB deposit, etc. SMIPL recorded revenue of Rs. 22.88 crore in ten months of FY21.

#### ***Comfortable capital structure***

Decrease in debt quantum backed by scheduled repayment of term loans coupled with increase in networth backed by accretion of profits has resulted in improved and comfortable capital structure marked by overall gearing of 0.94x as of March 31, 2020 as compared to 1.11x as of March 31, 2019 respectively.

#### ***Moderate debt protection metrics***

The debt protection metrics of the company continued to remain comfortable marked by TD/GCA which deteriorated marginally to 2.44x in FY20 as against 2.39x in FY19 owing to decrease in debt levels. However, on the other side, the interest coverage ratio has improved to 4.69x in FY20 as compared to 4.29x in FY19 due to decrease in interest and finance charges.

#### ***Satisfactory working capital cycle***

The company is into the manufacturing of UPVC profiles and windows and its operating cycle continued to remain satisfactory at 72 days. SMIPL imports raw materials namely calcium, toughening agent, Titanium Di-oxide from overseas suppliers and the payment are backed by letter of credit and the company procures remaining materials from Tirupur and avails credit period upto 25-30 days from its suppliers. The company holds its sufficient raw materials to meet its demand from customers. During FY20, 55% of inventory consists of finished goods which has been dispatched in subsequent days, hence the inventory period stretched marginally and stood at 56 days. The company's sales are partly on advance payment i.e. receives 70% advance from its customers and for remaining it allows credit period upto 35-45 days. To bridge the working capital gap, the company availed over draft facility from bank and the average utilization is 97% for last twelve months ended January 31, 2021

#### ***Captive Power Source***

The company has a windmill located at Pukkulam Village, Udumalpet, Tirupur Dist. The installed capacity of windmill is 600 KVA. During the year about 10 lakh unit were consumed from own source. SMIPL consumes 100% of power generated from their windmill to manufacture the products.

#### ***Established relationship with suppliers due to long standing presence in the market coupled with strong distribution network***

SMIPL has established relationship with overseas suppliers for more than a decade. SMIPL has strong distribution network with 125 customers located at Srilanka, Bhutan, Kerala, Karnataka, Andhra Pradesh, Telangana, Tamil Nadu, Uttar Pradesh and Gujarat.

#### ***Moderate liquidity***

Moderate liquidity characterized by sufficient cushion in cash accruals of Rs. 2.62 crore in FY20 to repay its term debt of Rs. 1.04 as on March 31, 2020 and with low cash balance of Rs. 0.06 crore as on balance sheet date. The current and quick ratio of the firm stood respectively at 1.35x and 0.54x as on March 31, 2020. Further, the cash flow from operations remained positive at Rs. 1.01 crore in FY20. The firm allows the credit period upto 35-45 days to its customers and stretching its creditors from 25-30 days. The average working capital utilization stood at 97% for last twelve months ended January 31, 2021 and unutilized portion stood of overdraft at Rs. 0.10 crore. As per RBI announcement, the company has not availed moratorium for its bank facilities.

**Analytical approach:** Standalone

#### **Applicable Criteria**

[Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Financial ratios – Non-Financial Sector](#)

[Liquidity Analysis of Non-Financial Sector Entities](#)

[Rating Methodology - Manufacturing Companies](#)

[Rating Criteria on Short Term Instruments](#)

### About the Company

Sarveswara Mills India Private Limited (SMIPL) was established in December 15, 2006 by Mr. G.S. Senthil, Mr. N.S. Siva Kumar, Mr. R.P. Chandrasekaran and Mr. S. Palanisamy in Palladam, Coimbatore, Tamil Nadu. The company is engaged in manufacturing of Unplasticized Polyvinyl Chloride (UPVC) profiles, UPVC windows by using extruder machinery. SMIPL imports 28% of raw materials namely Calcium and toughening agent and titanium di-oxide from overseas suppliers and PVC resin from Tirupur. The installed capacity of the company is 330 tons/month for UPVC profiles and 45000 sq. ft. for UPVC windows. SMIPL supplies the products to Tamil Nadu, Kerala, Karnataka, Andhra Pradesh, Telangana, Uttar Pradesh, Gujarat and also exports to Srilanka and Bhutan in the brand name of "Alpine". The company has a windmill located at Pukkulam Village, Udumalpet, Tirupur Dist. The installed capacity of windmill is 600 KVA. During the year about 10 lakh unit were consumed from own source. SMIPL consumes 100% of power generated from their windmill to manufacture the products.

Brief Financials (Rs.crore)	FY19 (A)	FY20(A)
Total operating income	29.28	30.88
PBILDT	4.11	3.80
PAT	0.54	0.69
Overall gearing (times)	1.11	0.94
Interest coverage (times)	4.29	4.69

(A)-Audited;

**Status of non-cooperation with previous CRA:** CRISIL has reviewed the ratings based on best available information and classified 'Sarveswara Mills India Private Limited' as issuer not cooperating category vide PR dated January 18, 2021

**Any other information:** Not applicable

**Rating History for last three years:** Please refer Annexure-2

### Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	Feb 2021	0.04	CARE BB; Stable
Fund-based - LT-Term Loan	-	-	Nov 2021	0.36	CARE BB; Stable
Fund-based - ST-Bank Overdraft	-	-	-	4.00	CARE A4
Non-fund-based - ST-BG/LC	-	-	-	1.91	CARE A4

### Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Term Loan	LT	0.04	CARE BB; Stable	-	1)CARE BB; Stable (03-Feb-20)	-	-
2.	Fund-based - LT-Term Loan	LT	0.36	CARE BB; Stable	-	1)CARE BB; Stable (03-Feb-20)	-	-
3.	Fund-based - ST-Bank Overdraft	ST	4.00	CARE A4	-	1)CARE A4 (03-Feb-20)	-	-
4.	Non-fund-based - ST-BG/LC	ST	1.91	CARE A4	-	1)CARE A4 (03-Feb-20)	-	-

### Annexure-3: Detailed explanation of covenants of the rated instrument / facilities: Not Applicable

**Annexure 4: Complexity level of various instruments rated for this Company**

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Term Loan	Simple
2.	Fund-based - ST-Bank Overdraft	Simple

**Note on complexity levels of the rated instrument:** CARE has classified instruments rated by it on the basis of complexity. This classification is available at [www.careratings.com](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

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