

Shiva Texyarn Limited

October 04, 2021

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating ¹	Rating Action
Long-term Bank Facilities	111.41 (Reduced from 124.70)	CARE BBB; Stable (Triple B; Outlook: Stable)	Revised from CARE BBB-; Stable (Triple B Minus; Outlook: Stable)
Long-term / Short-term Bank Facilities	70.00	CARE BBB; Stable / CARE A3+ (Triple B ; Outlook: Stable/ A Three Plus)	Revised from CARE BBB-; Stable / CARE A3 (Triple B Minus ; Outlook: Stable / A Three)
Short-term Bank Facilities	40.00	CARE A3+ (A Three Plus)	Revised from CARE A3 (A Three)
Total Bank Facilities	221.41 (Rs. Two hundred twenty-one crore and forty-one lakhs only)		

Details of facilities in Annexure-1

Detailed Rationale & Key rating drivers

The revision in the ratings assigned to the bank facilities of Shiva Texyarn Limited (STL) factors in the improvement in the capital structure due to reduced working capital borrowings and also improved profitability during FY21 (refers to the period April 1 to March 31) and Q1FY22 (refers to the period April 1 to June 30). The ratings continue to derive strength from vast experience of the promoters in the textile industry, long track record of operations of the company, long-standing customer relationships with diversified client and product profile. The ratings are, however, constrained by moderate debt coverage indicators albeit improved during FY21, profit margins exposed to volatility in the raw material prices.

Rating Sensitivities

Positive factors- Factors that could lead to positive rating action/upgrade:

- Ability of the company to scale up operations over Rs.400 crore with greater diversification from Technical Textile segment
- Improvement in the liquidity position with current ratio in the range of 1.3x-1.5x.

Negative factors- Factors that could lead to negative rating action/downgrade:

- Any large debt-funded capex leading to moderation in capital structure with gearing ratio above 1.5x.
- Any extended impact of Covid-19 pandemic leading to deterioration in profitability or cash losses being reported

Detailed description of the key rating drivers

Key Rating Strengths

Vast experience of the promoters in the textile industry: Shiva Texyarn Limited formerly known as Annamallai Finance Limited was established in the year 1980. Mr S.V Alaagappan, the Chairman and promoter of the company, is a qualified law graduate and has experience in the textile industry for more than four decades. Mr S.K Sundararaman, the Managing Director of the company, also has around two decades of experience in the textile industry.

Established track record of operations: Having commenced commercial production of yarn in 1989 as a relatively small-sized player with an installed capacity of 24,681 spindles, STL has grown into a medium-sized player with 52,416 spindles as on March 31, 2021. STL also has garments unit with 120 sewing machines, processing unit and technical textiles division which focuses on Lamination and Coating technology. The company is also engaged in export of yarn, coated fabric and garments. The share of exports stood around 10.06% (PY: 9.05%) of the total income in FY21 (refers to the period April 1 to March 31).

Diversified product profile and customer base: The company has diversified product profile with presence in spinning and Technical Textile (TTD) products. During FY21, the spinning contributed to 51% (PY:67%) of total income while the rest is contributed by the TTD and Waste Cotton. The contribution of TTD increased to around 35% (PY: 20%) of total income in FY21 with introduction of various healthcare products such as Covid-19 Protective Coveralls, Face masks, anti-viral fabrics etc. The company also has a diversified and reputed customer base with top ten customers accounting for only 20% (PY: 16%) of the total sales in FY21.

¹Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications

Improved capital structure and debt coverage indicators: The capital structure of STL improved with overall gearing of 0.99x (PY:1.74x) as on March 31, 2021. During FY21, STL sold windmills of 4.5 MW for the total proceeds of Rs.27 crore (including profit of Rs.6 crore) and used the proceeds to prepay term loans to the extent of Rs.19.45 crore. STL also availed Covid loans of Rs. 22.30 crore during FY21 which had lower interest rates and reduced the reliance on working capital borrowings. As a result of the above, the debt coverage indicators also improved, however stood moderate with total debt / GCA of 5.48x (PY: 11.96) as on March 31, 2021

Improved profitability albeit declined scale of operations in FY21: The operating income of STL moderated to Rs. 341.62 crore in FY21 from Rs.368.96 crore in FY20 due to lower production and sales in Q1 FY21 following covid lockdown restrictions. However, the Technical Textile division continued to operate during lockdown also and with increase in prices of cotton yarn post easing lockdown restrictions, the PBILDT margin improved from 9.35% in FY20 to 12.83% in FY21 supported by healthy spread between yarn and cotton prices and presence of diversified product portfolio. The PBILDT margins further improved to 15.90% in Q1 FY22.

Key rating weaknesses

Volatility in raw material prices: The profitability of spinning mills depends largely on the prices of cotton and cotton yarn which are governed by various factors such as area under cultivation, monsoon, international demand-supply situation, etc. The cotton being the major raw material of spinning mills, movement in cotton prices without parallel movement in yarn prices impact the profitability of the spinning mills. The cotton textile industry is inherently prone to the volatility in cotton and yarn prices. The company sources cotton domestically (Mostly S-6 and Bunny) as against 10-15% in prior periods due to 10% import duty on imported cotton.

Liquidity: Adequate - Adequate liquidity characterized by sufficient cushion in accruals vis-à-vis repayment obligations of Rs. 15.70 crores and moderate cash balance of Rs. 2.12 Crore as on March 31, 2021. The company receives payment from its customers in 40 to 60 days and make payment to creditors in 25-45 days. The current ratio improved and stood at 1.10 as on March 31, 2021 (PY: 0.91) due to lower reliance on working capital limits. The company has been sanctioned working capital limit of Rs. 127 crore and the average utilization stood comfortable at 51.62% for the past 12 months ended July 2021. The utilization of the non-fund-based limits were less than 50% for the past 12 months ended August 2021. STL availed covid loans of Rs. 22.30 crore in FY21 which is also used for the working capital purposes.

Industry outlook and impact of Covid-19

The international cotton prices are expected to remain stable in the coming months supported by an expected improvement in global domestic cotton consumption and international trade demand with ending cotton stocks likely to decline by 3%. The cotton prices in India are also expected to be steady in the coming months backed by a likely growth in domestic consumption and improvement in cotton exports from India. While international demand for cotton yarn is expected to stay stable backed by an increase in economic activities with the launch of Covid-19 vaccination drive in various parts of the world, it remains to be seen if Bangladesh continues to import significant quantity of cotton yarn from India.

Analytical approach:

Standalone

Applicable Criteria

[Policy on default recognition](#)

[Financial Ratios – Non financial Sector](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Credit Watch](#)

[Short Term Instruments](#)

[Cotton Textile](#)

[Manufacturing Companies](#)

About the company

Incorporated in 1980 as 'Annamalai Finance Private Ltd' (AFL), Shiva Texyarn Ltd (STL) was converted into a Public Limited Company in 1985. STL is primarily engaged in the manufacture and marketing of yarn and technical textiles. Presently, STL has an aggregate spinning capacity of 52,416 spindles situated in Tirupur, wind mills of 13.195 MW, garments unit with 120 sewing machines, processing and technical textiles division which focuses on Lamination and Coating technology.

Brief Financials (Rs. crore)	FY20 (A)	FY21 (A)
Total operating income	368.96	341.62
PBILDT	34.48	43.83
PAT	1.48	12.21
Overall gearing (times)	1.74	0.99
Interest coverage (times)	1.55	2.48

A: Audited;

Status of non-cooperation with previous CRA:

Not Applicable

Any other information:

Not Applicable

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

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure 4

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Term Loan-Long Term	-	-	-	March 2027	57.41	CARE BBB; Stable
Fund-based-Short Term	-	-	-	-	10.00	CARE A3+
Fund-based-Long Term	-	-	-	-	54.00	CARE BBB; Stable
Non-fund-based-Short Term	-	-	-	-	30.00	CARE A3+
Fund-based/Non-fund-based-LT/ST	-	-	-	-	70.00	CARE BBB; Stable / CARE A3+

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 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Term Loan-Long Term	LT	57.41	CARE BBB; Stable	-	1)CARE BBB-; Stable (21-Dec-20)	1)CARE BBB-; Stable (28-Nov-19)	1)CARE BBB; Stable (01-Oct-18)
2	Fund-based-Short Term	ST	10.00	CARE A3+	-	1)CARE A3 (21-Dec-20)	1)CARE A3 (28-Nov-19)	1)CARE A3+ (01-Oct-18)
3	Fund-based-Long Term	LT	54.00	CARE BBB; Stable	-	1)CARE BBB-; Stable (21-Dec-20)	1)CARE BBB-; Stable (28-Nov-19)	1)CARE BBB; Stable (01-Oct-18)
4	Non-fund-based-Short Term	ST	30.00	CARE A3+	-	1)CARE A3 (21-Dec-20)	1)CARE A3 (28-Nov-19)	1)CARE A3+ (01-Oct-18)
5	Fund-based/Non-fund-based-LT/ST	LT/ST*	70.00	CARE BBB; Stable / CARE A3+	-	1)CARE BBB-; Stable / CARE A3 (21-Dec-20)	1)CARE BBB-; Stable / CARE A3 (28-Nov-19)	1)CARE BBB; Stable / CARE A3+ (01-Oct-18)

* Long Term / Short Term

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 instrument	Complexity level
1	Fund-based-Long Term	Simple
2	Fund-based-Short Term	Simple
3	Fund-based/Non-fund-based-LT/ST	Simple
4	Non-fund-based-Short Term	Simple
5	Term Loan-Long Term	Simple

Annexure 5: Bank Lender Details for this Company

To view the lender wise details of bank facilities please [click here](#)

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. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarification

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