

## Shiva Mills Limited

August 05, 2022

### Ratings

Facilities	Amount (₹ crore)	Rating <sup>1</sup>	Rating Action
Long-term bank facilities	38.04 (Reduced from 38.85)	CARE BBB+; Stable (Triple B Plus; Outlook: Stable)	Revised from CARE BBB; Stable (Triple B; Outlook: Stable)
Long-term/short-term bank facilities	10.00	CARE BBB+; Stable/CARE A2 (Triple B Plus; Outlook: Stable/A Two)	Revised from CARE BBB; Stable/CARE A3+ (Triple B; Outlook: Stable/A Three Plus)
Short-term bank facilities	17.60 (Reduced from 21.10)	CARE A2 (A Two)	Revised from CARE A3+ (A Three Plus)
<b>Total bank facilities</b>	<b>65.64</b> <b>(₹ Sixty-five crore and sixty-four lakh only)</b>		

Details of instruments/facilities in Annexure-1.

### Detailed rationale and key rating drivers

The revision in the ratings assigned to the bank facilities of Shiva Mills Limited (SML) factors in the improved financial performance and debt protection metrics of the company during FY22 (refers to the period from April 1 to March 31). The ratings continue to derive strength from the vast experience of the promoters in the textile industry, the long track record of operations, the strong financial risk profile, and the availability of captive power.

The ratings are, however, constrained by the relatively moderate scale of operations and the vulnerability to the volatile prices of cotton and yarn.

### Key rating sensitivities

#### Positive factor – Factor that could lead to positive rating action/upgrade:

- Ability of the company to improve the scale of operations with operating income of over ₹500 crore, while maintaining a comfortable capital structure and profit before interest, lease rentals, depreciation and taxation (PBILDT) margin of above 14% on a consistent basis.

#### Negative factor – Factor that could lead to negative rating action/downgrade:

- Any large debt-funded capital expenditure (capex), leading to moderation of the capital structure with a gearing level above unity.

### Detailed description of the key rating drivers

#### Key rating strengths

**Vast experience of the promoters in the textile industry:** SML belongs to the Coimbatore-based Bannari Amman Group (BAG) of companies, which has a presence in textiles, automobile dealerships, sugar, distilleries, power, and education. Originally promoted by SV Balasubramaniam and his brothers, currently, each of the brothers and the next generation members are actively engaged in managing their respective businesses. At present, SV Alagappan, brother of SV Balasubramaniam, is the Chairman and Managing Director and controls the business of SML. He is a qualified law graduate and has more than four decades of experience in the textile industry.

**Long track record of operations in the textile industry:** SML currently operates one spinning unit, located at Dindigul, Tamil Nadu, which was earlier with Shiva Texyarn Limited (STL; the group company) before the demerger in 2017. The unit commenced commercial production of yarn in 1989 under STL, with an installed capacity of 24,681 spindles and currently has an installed capacity of 39,072 spindles as on March 31, 2022. The top 10 customers of SML constituted around 37.35% (PY: 37.30%) of the total sales in FY22.

**Improved financial performance during FY22:** The scale of operations improved, with operating income increasing by 53.16%, from ₹139.0 crore in FY21 to ₹212.9 crore in FY22, due to better yarn realisations. With minimal reliance on working capital limits, the interest expenses reduced to ₹0.94 crore in FY22 from ₹2.54 crore in FY21. The profit-after-tax (PAT) had improved to ₹22.9 crore in FY22 from ₹14.2 crore in FY21, aided by the growth in income during the year.

**Strong financial risk profile:** The company has not incurred any debt-funded capex in the past and with minimal term loans, the debt to equity ratio remained low, at 0.01x as on March 31, 2022 (PY: 0.02x). The interest coverage improved from 7.96x

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careedge.in](http://www.careedge.in) and other CARE Ratings Ltd.'s publications

in FY21 to 32.53x in FY22. The debt coverage indicators also improved and stood strong, with total debt (TD)/gross cash accruals (GCA) of 0.35x (PY: 0.27x) as on March 31, 2022.

**Availability of captive power:** SML has windmills with an aggregate installed capacity of 10.65 MW generating 157.82 lakh units (PY: 150.53 lakh units) of wind power during FY22. The entire power generated by the windmills is utilised for captive consumption at the textile mill. Additionally, the company has solar power with an aggregate installed capacity of 2 MW. The company met around 80% of its power requirements for FY22 through windmills and the solar power plant.

#### **Key rating weakness**

**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 the area under cultivation, monsoon, and international demand-supply situation, among others. Cotton being the major raw material of spinning mills, the movement in cotton prices without a parallel movement in yarn prices, impacts the profitability of the spinning mills. The company mainly buys S-6 cotton from Gujarat. The cotton textile industry is inherently prone to volatility in the prices of cotton and yarn. SML is a relatively small player, with 39,072 spindles and with a concentrated revenue profile. The PBILDT margin of the company had been volatile, in the range of 7.50-14.50% over the last four years ended March 31, 2022.

#### **Liquidity: Adequate**

The liquidity of the company is adequate, characterised by a sufficient cushion in accruals against negligible repayment obligations and a moderate cash balance of ₹1.84 crore (PY: ₹3.77 crore) as on March 31, 2022. The collection period improved, from 48 days in FY21 to 22 days in FY22, backed by strong domestic demand from yarn. The raw material, primarily S-6 cotton, is procured domestically from Gujarat and the Northern parts of the country. The credit period extended by the suppliers remains between 10-15 days. The company has been sanctioned working capital limits of ₹47.5 crore and the average working capital utilisation of the limits stood low, at 14.24% for the last 12 months ended July 31, 2022. The current ratio also stood adequate, at 3.02x (PY: 2.20x) as on March 31, 2022.

#### **Industry outlook**

India's cotton crop estimates for the 2021-22 season has been further reduced by the Cotton Association of India (CAI) by 8.31 lakh bales to 315.32 lakh bales of 170 kg each in May 2022, from its previous estimate of 323.63 lakh bales of 170 kg each. Indian cotton's quality was affected by unseasonal rains in October-November 2021. The total cotton production during CS2020-21 was 352.48 lakh bales. Imports were allowed to control domestic prices, which had surged past a record ₹100,000 a candy in May 2022. The cotton prices have come down to ₹98,000 in July 2022 since the beginning of June 2022 and yarn prices have also dropped by over 10% in the past one month. However, on a long-term basis, Indian cotton spinners are expected to maintain stable demand growth and profitability, supported by increasing urbanisation, rising disposable incomes, the China+1 strategy adopted by major global retail players, along with various incentives from the government such as the Remission of Duties and Taxes on Export Products (RoDTEP), Rebate of State & Central Taxes and Levies (RoSCTL) and Public-Linked Incentive (PLI) scheme, among others.

#### **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**

SML (formerly STYL Textile Ventures Limited) was incorporated in November 24, 2015, as a result of a demerger of one of the spinning units from STL (rated 'CARE BBB; Stable/CARE A3+'). The company, with an installed capacity of 39,072 spindles as on as on March 31, 2022, manufactures mainly cotton hosiery yarn, with an average count of 25s-40s. SML also has windmills of 10.65 MW, catering to around 80% of the power requirements.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	June 30, 2022 (P)
TOI	138.96	212.94	NA
PBILDT	20.19	30.56	NA
PAT	8.55	17.66	NA
Overall gearing (times)	0.04	0.07	NA
Interest coverage (times)	7.96	32.39	NA

A: Audited; P: Provisional; NA: Not available.

**Status of non-cooperation with previous CRA:** Not applicable

**Any other information:** Not applicable

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

**Covenants of the rated instruments/facilities:** 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 (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Term loan		-	-	March 2022	0.54	CARE BBB+; Stable
Fund-based-Long term		-	-	-	37.50	CARE BBB+; Stable
Non-fund-based-Short term		-	-	-	17.60	CARE A2
Fund-based/Non-fund-based-LT/ST		-	-	-	10.00	CARE BBB+; Stable/CARE A2

#### Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1.	Fund-based - LT-Term loan	LT	0.54	CARE BBB+; Stable	-	1)CARE BBB; Stable (August 30, 2021)	1)CARE BBB; Stable (December 01, 2020)	1)CARE BBB; Stable (November 28, 2019)
2.	Fund-based-Long term	LT	37.50	CARE BBB+; Stable	-	1)CARE BBB; Stable (August 30, 2021)	1)CARE BBB; Stable (December 01, 2020)	1)CARE BBB; Stable (November 28, 2019)
3.	Fund-based-Short term	ST	-	-	-	-	1)Withdrawn (December 01, 2020)	1)CARE A3+ (November 28, 2019)
4.	Non-fund-based-Short term	ST	17.60	CARE A2	-	1)CARE A3+ (August 30, 2021)	1)CARE A3+ (December 01, 2020)	1)CARE A3+ (November 28, 2019)
5.	Fund-based/Non-fund-based-LT/ST	LT/ST*	10.00	CARE BBB+; Stable/CARE A2	-	1)CARE BBB; Stable /CARE A3+ (August 30, 2021)	1)CARE BBB; Stable/CARE A3+ (December 01, 2020)	1)CARE BBB; Stable/CARE A3+ (November 28, 2019)

\*Long term/Short term.

#### Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities

Not applicable

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

Sr. No.	Name of Instrument	Complexity Level
1.	Fund-based - LT-Term loan	Simple
2.	Fund-based-Long term	Simple
3.	Fund-based/Non-fund-based-LT/ST	Simple
4.	Non-fund-based-Short term	Simple

**Annexure-5: Bank lender details for this company**

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

**Note on the complexity levels of the rated instruments:** CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to [care@careedge.in](mailto:care@careedge.in) for any clarifications.

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