Shiva Texyarn Limited

September 14, 2022

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	120.15 (Enhanced from 111.41)	CARE BBB; Stable (Triple B; Outlook: Stable)	Reaffirmed
Long-term / Short-term Bank Facilities	70.00	CARE BBB; Stable / CARE A3+ (Triple B ; Outlook: Stable/ A Three Plus)	Reaffirmed
Short-term bank facilities	40.00	CARE A3+ (A Three Plus)	Reaffirmed
Total Bank Facilities	**230.15 (₹ Two hundred thirty crore and fifteen lakh only)**		

Details of instruments/facilities in Annexure-1.

Detailed rationale & key rating drivers

The ratings assigned to the bank facilities of Shiva Texyarn Limited (STL) continue to factor in vast experience of the promoters in the textile industry, long track record of operations of the company, comfortable capital structure, long-standing customer relationships with diversified client and product profile. The ratings are, however, constrained by moderate debt coverage metrics, and 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 ₹500 crore with PBILDT margin above 12% on sustained basis
- 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.
- Deterioration in profitability or cash losses on sustained basis due to volatile raw material prices.

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. S.V Alaagappan, the Chairman of the company, is a qualified law graduate and has experience in the textile industry for more than four decades. S.K Sundararaman, the Managing Director of the company, also has over 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, 2022. STL also has garments unit with 400 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.

Diversified product profile and customer base

The company has diversified product profile with presence in spinning and Technical Textile (TTD) products. During FY22, the spinning segment contributed to 66% (PY:51%) of the total income while the restwas contributed by the TTD and Waste Cotton. The company has launched new product 'Seamless Saree Shapewear' under innerwear category since July 2022. The company also has a diversified and reputed customer base with top ten customers accounting for only 10% (PY: 20%) of the total sales in FY22.

Improved financial performance in FY22, however declined in Q1FY23

The operating income of STL improved to ₹477.58 crore in FY22 with a growth rate of 40% against ₹340.92 crore in FY21. The PBILDT margin in FY22 has dropped marginally to 11.74% in FY22 from 12.65% in FY21 due to price surge in raw materials. The gross accruals increased to ₹33.29 crore in FY22 from ₹22.09 crore in FY21 due to lower interest cost. During Q1FY23, the better sales realisation of yarn was offset by continued increase in cotton prices, and overhead costs incurred for the development of new products. The company reported income of ₹127.8 crore in Q1FY23 with reduced PBILDT margin of

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

5.88%. STYL also has decided to optimise production levels in spinning division by cutting down production in August and September 2022.

Comfortable capital structure
The capital structure of STL stood comfortable with an overall gearing of 0.99x (PY:0.99x) as on March 31, 2022. STL availed COVID-19 loans of ₹8.93 crore in FY22 and GECL extension loans of ₹16.91 crore in 4mFY23 for working capital requirement and liquidity shortfall. However, the overall gearing continued to remain comfortable at 1.03x as on June 30, 2022.

Key rating weaknesses
Moderate debt coverage metrics
The debt coverage metrics of STL remained moderate with Total debt to GCA of 4.25x as on March 31, 2022 (PY: 5.48x). During Q1FY23, the debt coverage metrics further moderated with Total debt/ GCA of 10.43x as on June 30, 2022 due to lower accruals.

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 company majorly buys S-6 cotton from Gujarat. The cotton textile industry is inherently prone to the volatility in cotton and yarn prices. The average purchase cost of cotton for STL increased from ₹132 per kg in FY21 to ₹208 per kg in FY22 and ₹272.42 per kg in Q1FY23. The PBILDT margin of the company had been volatile in the range of 9.0% to 13.0% over the past three years ended FY22.

Industry Outlook
Indian cotton's quality was affected by unseasonal rains in October-November 2021. The CAI Crop Committee has estimated the total cotton supply (including import) until the end of the cotton season of 2021-22, ie, up to September 30, 2022, at 402.16 lakh bales, which is less by 11.47 lakh bales as compared to 413.63 lakh bales estimated by the CAI previously. The textile and apparel sector is currently facing uncertainty and challenges in demand and operational profitability for the last three months. Capacity utilisation has dropped across the textile value chain, especially for yarn and fabric, since May 2022. However, on a long-term basis, Indian cotton spinners are expected to maintain stable demand growth and profitability supported by increasing urbanisation, rising disposable income, China+1 strategy adopted by the major global retail players along with various incentives from government like RoDTEP, RoSCTL and PLI scheme etc.

Liquidity- Adequate
Adequate liquidity characterised by sufficient cushion in accruals of ₹33.3 crore in FY22 vis-à-vis repayment obligations of ₹19.92 crores in FY23 and moderate cash balance of ₹1.27 crore as on March 31, 2022. The company normally receives payment from its customers in 40-60 days and make payment to creditors in around 30 days. However, during FY22, with improved focus on collection of receivables, the collection period improved to 25 days. The company has sanctioned working capital limits of ₹124 crore and the average utilisation stood comfortable at 57.69% for the past 12 months ended August 2022. The current ratio stood moderate at 1.07x as on March 31, 2022 (PY: 1.10x). STL availed GECL loans of ₹8.93 crore in FY22 and GECL extension loans of ₹16.91 crore in 4mFY23.

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 400 sewing machines, processing and technical textiles division which focuses on Lamination and Coating technology.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	June 30, 2022 (UA)
Total operating income	340.92	477.57	127.78
PBILDT	43.14	56.06	7.51
PAT	12.28	20.01	0.61
Overall gearing (times)	0.99	0.99	1.03
Interest coverage (times)	2.44	4.06	2.01

A: Audited; UA: Unaudited

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
Term Loan-Long Term		-	-	June 2028	66.15	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 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	Term Loan-Long Term	LT	66.15	CARE BBB; Stable	-	1)CARE BBB; Stable (04-Oct-21)	1)CARE BBB-; Stable (21-Dec-20)	1)CARE BBB-; Stable (28-Nov-19)
2	Fund-based-Short Term	ST	10.00	CARE A3+	-	1)CARE A3+ (04-Oct-21)	1)CARE A3 (21-Dec-20)	1)CARE A3 (28-Nov-19)
3	Fund-based-Long Term	LT	54.00	CARE BBB; Stable	-	1)CARE BBB; Stable (04-Oct-21)	1)CARE BBB-; Stable (21-Dec-20)	1)CARE BBB-; Stable (28-Nov-19)
4	Non-fund-based-Short Term	ST	30.00	CARE A3+	-	1)CARE A3+ (04-Oct-21)	1)CARE A3 (21-Dec-20)	1)CARE A3 (28-Nov-19)
5	Fund-based/Non-fund-based-LT/ST	LT/ST*	70.00	CARE BBB; Stable / CARE A3+	-	1)CARE BBB; Stable / CARE A3+ (04-Oct-21)	1)CARE BBB-; Stable / CARE A3 (21-Dec-20)	1)CARE BBB-; Stable / CARE A3 (28-Nov-19)

*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-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 instruments: CARE Ratings Limited (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 for any clarifications.

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