

## Shiva Texyarn Limited

August 21, 2023

Facilities	Amount (₹ crore)	Rating <sup>1</sup>	Rating Action
Long-term bank facilities	105.60 (Reduced from 120.15)	CARE BBB; Negative	Reaffirmed; Outlook revised from Stable
Long-term / Short-term bank facilities	70.00	CARE BBB; Negative / CARE A3+	Reaffirmed; Outlook revised from Stable
Short-term bank facilities	40.00	CARE A3+	Reaffirmed

Details of instruments/facilities in Annexure-1.

### Rationale and 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, and long-standing customer relationships with diversified client and product profile. The ratings are, however, constrained by moderate debt coverage metrics, decline in profitability during FY23 (refers to the period of April 01 to March 31) and Q1FY24 (refers to the period of April 01 to June 30), and profit margins exposed to volatility in the raw material prices.

### Rating sensitivities: Factors likely to lead to rating actions

#### Positive factors

- Ability of the company to scale up operations over ₹500 crore with PBILDT margin above 12% on a sustained basis.
- Improvement in the liquidity position with current ratio in the range of 1.3x-1.5x.

#### Negative factors

- Any large debt-funded capex leading to moderation in the capital structure with gearing ratio above 1.5x.
- Deterioration in profitability or cash losses on sustained basis due to volatile raw material prices.

### Analytical approach: Standalone

#### Outlook: Negative

The outlook is negative as the company's spinning operation is expected to report losses in the near term due to industry-wide slowdown in demand for yarn. The outlook may be revised to 'Stable' if the company is able to ramp-up sales and improve profitability.

### Detailed description of the key rating drivers:

#### Key strengths

##### Vast experience of the promoters in the textile industry

STL, formerly known as Annamallai Finance Limited, was established in the year 1980. 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. 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

STL commenced commercial production of yarn in 1989 as a relatively small-sized player with an installed capacity of 24,681 spindles. It has grown into a medium-sized player with 52,416 spindles as on March 31, 2023. 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 the 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 FY23, spinning contributed to 66% (PY: 67%) of the total income, while TTD and Garment divisions contributed the rest. The company also has a diversified and reputed customer base with top 10 customers accounting for only 27.09% (PY: 21.20%) of the total sales in FY23.

#### Comfortable capital structure

<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

The capital structure of STL stood comfortable with overall gearing of 0.81x (PY: 0.99x) as on March 31, 2023, aided by reduced working capital utilisation. During FY23, STL availed COVID-19 emergency loans of ₹16.90 crore at relatively lower interest rate for working capital purposes. The overall gearing continued to remain comfortable at 0.81x as on June 30, 2023.

### Key weaknesses

#### Declined financial performance during FY23 and Q1FY24

The operating income during FY23 decreased to ₹411.17 crore from ₹477.58 crore in FY22 owing to industry-wide slowdown in the yarn market. The PBILDT margins also had deteriorated from 11.74% in FY22 to 2.36% in FY23 due to higher raw material costs and lower productivity. During Q1FY24, the PBILDT margin further declined to 0.18% leading to cash loss of ₹2.74 crore due to continued slowdown in demand.

#### Moderate debt coverage metrics

The debt coverage metrics remained moderate with total debt to gross cash accruals (TD/GCA) at 10.16x as on March 31, 2023 (PY: 4.25) due to net losses booked during FY23. The interest coverage ratio deteriorated to 0.71x in FY23 from 4.06x in FY22. The company had availed COVID-19 loans in FY23, in addition to the asset sale proceeds for managing liquidity shortfall.

#### Exposure to 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 increased from ₹208.51 per kg in FY22 to ₹220.51 per kg in FY23.

#### Liquidity: Adequate

The liquidity of the company is adequate supported by improved collection of receivables over the past two years. The company had lower accruals of ₹10.26 crore in FY23 against repayment obligations. However, the liquidity is supported by regular infusion of unsecured loans from the promoters in the past. The cash balance stood moderate at ₹0.72 crore as on March 31, 2023. The working capital cycle improved to 66 days in FY23 from 72 days in FY22 with more focus on prompt collection of receivables. The company has working capital limits of ₹124 crore and the average utilisation stood at 81.30% for the past 12 months ended July 2023. STL availed GECL extension loans of ₹16.91 crore in FY23 for working capital requirement and also to meet the repayment obligations during the year. The promoters are expected to continue to fund the operations through unsecured loans during the year amidst sluggish demand scenarios.

**Assumptions/Covenants:** Not Applicable

**Environment, social, and governance (ESG) risks:** Not Applicable

### 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](#)

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### About the company and industry

#### Industry classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Consumer Discretionary	Textiles	Textiles & Apparels	Other Textile Products

Incorporated in 1980 as 'Annammalai 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. As on March 31, 2023, 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 (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	Q1FY24 (UA)
Total operating income	477.57	412.08	90.57
PBILDT	56.06	10.59	0.16
PAT	20.01	-6.64	-5.98
Overall gearing (times)	0.99	0.81	NA
Interest coverage (times)	4.06	0.77	0.66

A: Audited UA: Unaudited NA: Not Available; Note: 'the above results are latest financial results available'

**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:** Annexure-4

**Lender details:** Annexure-5

#### Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based-Long Term		-	-	-	54.00	CARE BBB; Negative
Fund-based-Short Term		-	-	-	10.00	CARE A3+
Fund-based/Non-fund-based-LT/ST		-	-	-	70.00	CARE BBB; Negative / CARE A3+
Non-fund-based-Short Term		-	-	-	30.00	CARE A3+
Term Loan-Long Term		-	-	June 2028	51.60	CARE BBB; Negative

**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 2023-2024	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
1	Term Loan-Long Term	LT	51.60	CARE BBB; Negative	-	1)CARE BBB; Stable (14-Sep-22)	1)CARE BBB; Stable (04-Oct-21)	1)CARE BBB-; Stable (21-Dec-20)
2	Fund-based-Short Term	ST	10.00	CARE A3+	-	1)CARE A3+ (14-Sep-22)	1)CARE A3+ (04-Oct-21)	1)CARE A3 (21-Dec-20)
3	Fund-based-Long Term	LT	54.00	CARE BBB; Negative	-	1)CARE BBB; Stable (14-Sep-22)	1)CARE BBB; Stable (04-Oct-21)	1)CARE BBB-; Stable (21-Dec-20)
4	Non-fund-based-Short Term	ST	30.00	CARE A3+	-	1)CARE A3+ (14-Sep-22)	1)CARE A3+ (04-Oct-21)	1)CARE A3 (21-Dec-20)
5	Fund-based/Non-fund-based-LT/ST	LT/ST*	70.00	CARE BBB; Negative / CARE A3+	-	1)CARE BBB; Stable / CARE A3+ (14-Sep-22)	1)CARE BBB; Stable / CARE A3+ (04-Oct-21)	1)CARE BBB-; Stable / CARE A3 (21-Dec-20)

\*Long term/Short term.

**Annexure-3: Detailed explanation of covenants of the rated instruments/facilities:** Not Applicable**Annexure-4: Complexity level of the various instruments rated**

Sr. No.	Name of the 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: Lender details**To view the lender wise details of 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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