

Shiva Mills Limited

September 12, 2023

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long-term bank facilities	37.50	CARE BBB+; Negative	Reaffirmed; Outlook revised from Stable
Short-term bank facilities	12.50 (Reduced from 17.60)	CARE A2	Reaffirmed
Long-term/Short-term bank facilities	-	-	Withdrawn
Long-term bank facilities	-	-	Withdrawn

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The ratings assigned to the bank facilities of Shiva Mills Limited (SML) 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, the comfortable liquidity position, and the availability of captive power.

The ratings are, however, constrained by the relatively moderate scale of operations, the declined financial performance with net losses during FY23 (FY refers to the period of April 01 to March 31) and Q1FY24 (Q1 refers to the period from April 01 to June 30) due to the slowdown in demand and the vulnerability of profit margins to the volatile prices of cotton and yarn.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

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

Negative factors

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

Analytical approach: Standalone

Outlook: Negative

The outlook is 'negative' as the profitability is expected to be stressed in the near term with lower utilisation of installed capacities due to the 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 with recovery in demand for yarn.

Detailed description of the key rating drivers

Key strengths

Vast experience of the promoters in the textile industry

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

Long track record of operations in the textile industry

SML currently operates one spinning unit, which is located at Dindigul, Tamil Nadu, and was earlier with Shiva Texyarn Limited (STL, the group company) before the demerger in 2017. The unit had 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, 2023. The customer base is also reputed and diversified, with the top 10 customers of SML constituting around 42.73% (PY: 37.35%) of the total sales in FY23.

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

Strong financial risk profile

SML's capital structure remained comfortable with an overall gearing at nil, as the company had closed its entire term loans during FY23. The company has no plans to avail any term loans in the medium term. The debt coverage indicators had moderated due to cash losses incurred in FY23.

Availability of captive power

SML has windmills with an aggregate installed capacity of 10.65 MW, which generated 156.28 lakh units (PY: 157.82 lakh units) of wind power during FY23. The entire power generated by the windmills are utilised for captive consumption at the textile mill. Additionally, the company has a solar power plant with an aggregate installed capacity of 2 MW. The company met around 80-90% of the power requirement for FY23 through windmills and the solar power plant.

Key weaknesses

Declined financial performance in FY23 and Q1FY24

SML is a relatively smaller player with 39,072 spindles. The scale of operations has declined with a total operating income (TOI) of ₹159.06 crore in FY23. The decrease in the TOI is mainly attributable to the decrease in the demand for yarn coupled with the lower capacity utilisation. The company had incurred operating losses of ₹1.70 crore in FY23 against operating profits of ₹30.34 crore in FY22. The slowdown prevailed in Q1FY24 also, which led to continued operating losses of ₹0.41 crore on a total income of ₹33.26 crore.

Volatility associated with 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, the monsoon, the international demand-supply situation, etc. 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 spinning mills. The company mainly 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 ₹164 per kg in FY22 to ₹220.0 per kg in FY23, impacting the profitability during the year.

Liquidity: Adequate

The liquidity is adequate, characterised by nil term loan repayment obligations and an adequate cash balance of ₹10.93 crore (PY: ₹1.84 crore) as on as on March 31, 2023. The company maintains an inventory period of 60-70 days and extends a credit period of 20-30 days based on the buyer. The raw material (primarily S-6 cotton) is procured domestically from Gujarat and Northern parts of the country. The credit period extended by the suppliers remained between 10-15 days. The average working capital utilisation of the company stood low at 12.91% for the last 12 months ended July 31, 2023.

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](#)

[Cotton Textile](#)

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[Policy on Withdrawal of Ratings](#)

About the company and industry

Industry classification

Macro-economic Indicator	Sector	Industry	Basic Industry
Consumer Discretionary	Textiles	Textiles and apparels	Other textile products

SML (formerly STYL Textile Ventures Limited) was incorporated on November 24, 2015, as a result of the 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, 2023, manufactures mainly cotton hosiery yarn with an average count of 25s-40s. SML also has windmills of 10.65 MW, catering to around 80-90% of the power requirements.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	Q1FY24 (UA)
Total operating income	212.94	159.06	33.26
PBILDT	30.34	-1.70	-0.41
PAT	17.67	-7.15	-1.88
Overall gearing (times)	0.07	0.00	NA
Interest coverage (times)	38.46	-1.79	NM

A: Audited; UA: Unaudited; NM: Not meaningful; NA: Not available. Note: The above results are the latest financial results 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 the covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of the 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 – LT-Term Loan		-	-	August 2022	0.00	Withdrawn
Fund-based-Long Term		-	-	-	37.50	CARE BBB+; Negative
Fund-based/Non-fund-based-LT/ST		-	-	-	0.00	Withdrawn
Non-fund-based-Short Term		-	-	-	12.50	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 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	Fund-based – LT-Term Loan	LT	-	-	-	1)CARE BBB+; Stable (05-Aug-22)	1)CARE BBB; Stable (30-Aug-21)	1)CARE BBB; Stable (01-Dec-20)
2	Fund-based-Long Term	LT	37.50	CARE BBB+; Negative	-	1)CARE BBB+; Stable (05-Aug-22)	1)CARE BBB; Stable (30-Aug-21)	1)CARE BBB; Stable (01-Dec-20)
3	Fund-based-Short Term	ST	-	-	-	-	-	1)Withdrawn (01-Dec-20)
4	Non-fund-based-Short Term	ST	12.50	CARE A2	-	1)CARE A2 (05-Aug-22)	1)CARE A3+ (30-Aug-21)	1)CARE A3+ (01-Dec-20)
5	Fund-based/Non-fund-based-LT/ST	LT/ST*	-	-	-	1)CARE BBB+; Stable / CARE A2 (05-Aug-22)	1)CARE BBB; Stable / CARE A3+ (30-Aug-21)	1)CARE BBB; Stable / CARE A3+ (01-Dec-20)

*Long term/Short term.

Annexure-3: Detailed explanation of the 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 - 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: Lender detailsTo 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 for any clarifications.

Contact us

<p>Media Contact</p> <p>Mradul Mishra Director CARE Ratings Limited Phone: +91-22-6754 3596 E-mail: mradul.mishra@careedge.in</p> <p>Relationship Contact</p> <p>Pradeep Kumar V Senior Director CARE Ratings Limited Phone: +91-044-28490876 E-mail: pradeep.kumar@careedge.in</p>	<p>Analytical Contacts</p> <p>Sandeep P Director CARE Ratings Limited Phone: +91-044-28497812 E-mail: sandeep.prem@careedge.in</p> <p>Naveen S Assistant Director CARE Ratings Limited Phone: +91- 0422 - 4502399 E-mail: naveen.kumar@careedge.in</p> <p>Ragavilashini Muralikrishnan Analyst CARE Ratings Limited E-mail: Ragavilashini.M@careedge.in</p>
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About us:

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