

Sri Lakshmi Ganesh Spinning Mills OE Division

August 21, 2024

Facilities	Amount (₹ crore)	Rating ¹	Rating Action
Long Term Bank Facilities	36.50	CARE BB; Stable	Assigned

Details of facilities in Annexure-1.

Rationale and key rating drivers

The ratings assigned to the bank facilities of Sri Lakshmi Ganesh Spinning Mills OE Division (SLGSM) are constrained by moderate scale of operations, susceptibility of profitability due to volatility in raw material prices, presence in highly competitive and fragmented industry, moderate capital structure and partnership nature of constitution with risk of withdrawal of capital. However, the ratings continue to derive comfort from vast experience of the promoters and long track record of operations of the group, satisfactory profitability margins with benefits from captive consumption of power.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Consistent growth in scale of operations resulting in total operating income above Rs.150 crores with PBILDT margin above 10%.
- Improvement in debt coverage metrics with Total debt/GCA below 3.5x.

Negative factors

- Any stretch in collection of receivables leading to elongated working capital cycle above 120 days on sustained basis
- Any further large debt funded capex or withdrawal or partner capital leading to overall gearing above 3x.

Analytical approach: Standalone

Outlook: Stable

The stable outlook reflects the ability of the firm is expected to sustain its profitability with benefits derived from captive power consumption

Detailed description of the key rating drivers

Key weaknesses

Moderate scale of operations

The scale of operations remained moderate with installed capacity of 4800 rotors to produce 10,500 MT of OE yarn per day. The total operating income stood moderate at Rs.117.05 crore in FY24 (Prov) albeit grown at the CAGR of 5.50% over the past three years ended FY24 (refers to the period April 01 to March 31).

Moderate capital structure and debt coverage indicators

The capital structure of the firm stood moderate with overall gearing of 1.38x as on March 31, 2024 on account of the debt funded capex towards installation of solar and wind power for captive power consumption. The promoters and related parties infused unsecured loans to fund part of the above capex and the same stood at Rs.17.98 crore as on March 31, 2024 out of which Rs.13.78 crore is subordinated to bank borrowings and treated as quasi-equity. The debt coverage metrics also stood moderate with total debt/GCA of 4.20x as on March 31, 2024.

Susceptibility of profitability due to volatility in raw material prices

The profitability margins are susceptible to the volatile prices of raw material viz. cotton and polyester. Any fluctuation in raw material prices will affect its profitability adversely. During the past years, the market has seen volatility in cotton yarn production due to the unstable cotton prices and inconsistent cotton yarn export policy. The ability of the firm to manage the volatility in the raw cotton prices would be important from a credit perspective.

Presence in highly competitive and fragmented industry

The firm operates in a highly competitive and fragmented market which consists of large and small and large sized players. Moreover, low entry barriers in the industry further intensifies the already prevailing competition in the market. This competitive and fragmented nature of the industry can have an impact on the profit margin of the firm and led firm to adopt liberal credit policy in the market.

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

Partnership nature of the firm with inherent risk of capital withdrawal

The partnership nature of business has an inherent risk of withdrawal of capital by the partners at the time of their personal contingencies resulting in reduction of capital base leading to adverse effect on capital structure. It has been witnessed that the partners have withdrawn Rs.1.00 crore in last 3 years ended FY23 for personal contingencies. However, the partners infused Rs.3.50 crores of capital in FY24.

Key Strengths

Experienced promoters and long track record of operations

SLGSM was established in 2007 by Mr. Tamilselvan, as an open-ended spinning unit. Later, Mr. K.C. Chandrasekaran and Mrs. Suganthi joined the firm in 2009 and 2011 respectively by taking entire share in the firm. Mr. K.C. Chandrasekaran is the managing partner of the firm. He is the managing director of Sudhan Group with more than 4 decades of experience in the textile industry. 'Sudhan group' has various entities involved in manufacturing of products such as Recycled fibers, OE yarn, Ring spun yarn, Greige fabric & Knitted fabric. The flagship firm of the group is 'Sudhan Yarns', yarn trading company catering into all types of yarns and fabrics count ranging from 2s to 120s. The other entities of the group include Lotus Agency (involved in yarn trading), C P Cotton, Green Fine Textile (weaving of fabrics).

Satisfactory profitability margins with benefits from captive power

The firm has captive solar and wind-mills of cumulative capacity 9.50 MW as on date which meets around 95% of power requirements. The firm had added significant capacities of captive power in the past two years which enabled to sustain profitability despite the volatility in raw material prices. The PBILDT margin of the firm has consistently improved from 8.54% in FY22 to 10.59% in FY24 with power cost savings and improved capacity utilization.

Liquidity: Stretched

The liquidity position of SLGSM is stretched with tightly matched accruals of Rs.8.75 crores in FY24 against repayment obligations of Rs.6.63 crores and modest cash and bank balance of Rs.0.77 crore as on March 31, 2024. The operating cycle elongated from 43 days in FY23 to 75 days in FY24 due to reduced creditor days. The collection period also stood relatively high at 78 days (PY: 75 days) in FY24 due to the slowdown in the yarn demand. The firm has been sanctioned with working capital limits of Rs.10 crore and the average working capital utilization stood at around 85.89% for the past 12 months ended July 2024. The current ratio of the firm stood at 2.17x as on March 31, 2024.

Assumptions/Covenants: Not applicable

Environment, social, and governance (ESG) risks: Not applicable

Applicable criteria

[Definition of Default](#)

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

[Rating Outlook and Rating Watch](#)

[Manufacturing Companies](#)

[Financial Ratios – Non financial Sector](#)

[Cotton Textile](#)

[Manmade Yarn-Methodology](#)

About the company and industry

Industry classification

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

Sri Lakshmi Ganesh Spinning Mills O.E. division (SLGSM), based out of Erode, Tamil Nadu, manufactures and sells OE yarn of various counts using both cotton and polyester fibers. SLGSM belongs to 'Sudhan group' which has various entities involved in manufacturing of products such as Recycled fibers, OE yarn, Ring spun yarn, Greige fabric & Knitted fabric. SLGSM is currently managed by Mr. K.C. Chandrasekaran.

Brief Financials (₹ crore)	31-03-2023 (A)	31-03-2024 (Prov)	31-07-2024 (UA)
Total operating income	116.28	117.05	50.88
PBILDT	10.50	12.40	NA
PAT	0.70	0.58	NA
Overall gearing (times)	1.63	1.38	NA
Interest coverage (times)	5.11	3.13	NA

A: Audited; Prov: Provisional; UA: Unaudited; NA: Not Available; Note: 'these are latest available financial results'

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not applicable

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

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

Complexity level of 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-Cash Credit		-	-	-	10.50	CARE BB; Stable
Fund-based - LT-Term Loan		-	-	April 2029	26.00	CARE BB; Stable

Annexure-2: Rating history of 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 2024-2025	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
1	Fund-based - LT-Term Loan	LT	26.00	CARE BB; Stable				
2	Fund-based - LT-Cash Credit	LT	10.50	CARE BB; Stable				

LT: Long term

Annexure-3: Detailed explanation of covenants of rated instruments/facilities: Not applicable

Annexure-4: Complexity level of instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Cash Credit	Simple
2	Fund-based - LT-Term Loan	Simple

Annexure-5: Lender details

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

Note on 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.

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