

## Shiva Mills Limited

August 30, 2021

### Ratings

Facilities/Instruments	Amount (Rs. crore)	Ratings <sup>1</sup>	Rating Action
Long Term Bank Facilities	38.85 (Reduced from 39.93)	CARE BBB; Stable (Triple B; Outlook: Stable)	Reaffirmed
Long Term / Short Term Bank Facilities	10.00	CARE BBB; Stable / CARE A3+ (Triple B; Outlook: Stable/ A Three Plus)	Reaffirmed
Short Term Bank Facilities	21.10	CARE A3+ (A Three Plus)	Reaffirmed
<b>Total Bank Facilities</b>	<b>69.95</b> <b>(Rs. Sixty-Nine Crore and</b> <b>Ninety-Five Lakhs Only)</b>		

Details of facilities in Annexure-1

### Detailed Rationale & Key rating drivers

The ratings assigned to the bank facilities of Shiva Mills Limited (SML) continue to factor in vast experience of the promoters in the textile industry, long track record of operations and availability of captive power. The ratings also take note of comfortable financial risk profile characterized by low leverage levels and improved profitability margins during FY21 (refers to the period April 1 to March 31) and Q1FY22 (refers to the period April 1 to June 30). The ratings are constrained by moderate scale of operations and vulnerability to volatile cotton/yarn prices.

### Key Rating Sensitivities:

#### Positive factor

- Ability of the company to improve the scale of operations with operating income of over Rs. 200 crore while maintaining the comfortable capital structure and PBILDT margin of above 14% on a consistent basis

#### Negative factor

- Any large debt-funded capital expenditure leading to moderation of capital structure with 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 Coimbatore-based Bannari Amman Group (BAG) of companies which has presence in textiles, automobile dealership, sugar, distilleries, power and education. Originally promoted by Mr S V Balasubramaniam and his brothers, presently each brothers and next generation members are actively engaged in managing their respective businesses. At present, Mr S V Alagappan, (brother of Mr S V Balasubramaniam) controls the business of SML and is the Chairman and Managing Director of SML. He is a qualified law graduate and has experience in the textile industry for more than four decades.

**Long track record of operations in the textile industry:** SML currently operates one spinning unit which is located at Dindigul, Tamil Nadu and it was earlier with Shiva Texyarn Limited (STL, the group company) before demerger during 2017. The Unit had commenced commercial production of yarn in 1989 under STL with an installed capacity of 24,681 spindles, and increased to 39,072 spindles as at the end of March 2020. The top ten customers of SML constituted around 37.30% (PY: 20%) of the total sales in FY21 (refers to the period April 1 to March 31).

**Comfortable financial risk profile and improved profit margins:** Debt equity ratio remained comfortable at 0.02x as on March 31, 2021 (PY: 0.04x) and the overall gearing stood at 0.04x as on March 31, 2020 (PY: 0.49 x). The debt coverage indicators also remained comfortable with Total debt / GCA of 0.27x (PY: 6.75x) as on March 31, 2021. Post relaxation of lockdown, the demand for yarn improved and with better realization, the PBILDT margin improved from 7.59% in FY20 to 14.59% in FY21.

<sup>1</sup> Complete definitions of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and in other CARE publications.

**Availability of captive power:** SML has wind mills with an aggregate installed capacity of 10.65 MW generated 150.53 lakh units (168.37 lakh units) of wind electricity during the FY21. The entire power generated by the wind mills are utilized for captive consumption at the textile mill and the same met around 80% of power requirements during FY21.

#### Key Rating Weaknesses

**Moderate scale of operations:** SML is a relatively smaller player with 39,072 spindles and the scale of operations continued to remain moderate and the operating income declined by 15.45% from Rs.164.48 crore in FY20 to Rs. 139.07 crores in FY21 due to lower production on account of Covid lockdown restriction for around 2 months in Q1FY21.

**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 cotton textile industry is inherently prone to the volatility in cotton and yarn prices. Average cost of cotton reduced from Rs. 127 per kg in FY20 to Rs. 116.50 per kg in FY21 for the company.

**Liquidity: Adequate** - Adequate liquidity characterized by sufficient cushion in accruals vis-à-vis repayment obligations and a moderate cash balance of Rs. 3.77 crore (PY: Rs. 0.33 crore). The company maintains an inventory period of 80-100 days and extends credit period of 40-50 days based on the buyer. The raw material (primarily s-6 cotton) is procured domestically from Gujarat and Northern region. The credit period extended by the suppliers remained between 15 and 30 days. The company has been sanctioned working capital limits of Rs.47.5 crore and the average working capital utilisation of the limits stood low at 26% for 12 months ended July 2021.

#### Industry outlook and impact of Covid-19

The international cotton prices are expected to remain stable in the coming months supported by an expected improvement in global domestic cotton consumption and international trade demand with ending cotton stocks likely to decline by 3%. The cotton prices in India are also expected to be steady in the coming months backed by a likely growth in domestic consumption and improvement in cotton exports from India. While international demand for cotton yarn is expected to stay stable backed by an increase in economic activities with the launch of Covid-19 vaccination drive in various parts of the world, it remains to be seen if Bangladesh continues to import significant quantity of cotton yarn from India.

**Analytical approach:** Standalone

**Applicable criteria:**

[Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Financial Ratios- Non-Financial Sector](#)

[Liquidity Analysis of Non-Financial Sector Entities](#)

[Criteria for Short term Instruments](#)

[CARE's Methodology for Cotton Textile Manufacturing](#)

#### About the Company

Shiva Mills Limited (SML, formerly, STYL Textile Ventures Limited) was incorporated as a result of demerger of one of the spinning units from Shiva Texyarn Limited (STL, rated 'CARE BBB-; Stable/ CARE A3'). As per the scheme of demerger approved by Company Law Tribunal, Chennai on vide its order dated August 23, 2017, the business of Spinning Unit (Unit-I) of STL with capacity of 39,072 spindles located at Dindigul, Tamil Nadu along with 22 windmills with capacity of 10.65MW was demerged from STL and transferred SML with effect from 01 April 2015. The company manufactures mainly cotton hosiery yarn with an average count of 25s-40s.

Brief Financials (Rs. crore)	FY20 (A)	FY21 (A)
Total operating income	164.48	139.07
PBILDT	12.48	20.29
PAT	1.14	8.55
Overall gearing (times)	0.49	0.04
Interest coverage (times)	2.20	7.99

A: Audited;

**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: NA

Complexity level of various instruments rated for this company: Annexure -3

**Annexure-1: Details of Instruments/Facilities**

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	March 2022	1.35	CARE BBB; Stable
Fund-based-Long Term	-	-	-	37.50	CARE BBB; Stable
Non-fund-based-Short Term	-	-	-	21.10	CARE A3+
Fund-based/Non-fund-based-LT/ST	-	-	-	10.00	CARE BBB; Stable / CARE A3+

**Annexure-2: Rating History of last three years**

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1.	Fund-based - LT-Term Loan	LT	1.35	CARE BBB; Stable	-	1)CARE BBB; Stable (01-Dec-20)	1)CARE BBB; Stable (28-Nov-19)	1)CARE BBB; Positive (27-Dec-18)
2.	Fund-based-Long Term	LT	37.50	CARE BBB; Stable	-	1)CARE BBB; Stable (01-Dec-20)	1)CARE BBB; Stable (28-Nov-19)	1)CARE BBB; Positive (27-Dec-18)
3.	Fund-based-Short Term	ST	-	-	-	1)Withdrawn (01-Dec-20)	1)CARE A3+ (28-Nov-19)	1)CARE A3+ (27-Dec-18)
4.	Non-fund-based-Short Term	ST	21.10	CARE A3+	-	1)CARE A3+ (01-Dec-20)	1)CARE A3+ (28-Nov-19)	1)CARE A3+ (27-Dec-18)
5.	Fund-based/Non-fund-based-LT/ST	LT/ST	10.00	CARE BBB; Stable / CARE A3+	-	1)CARE BBB; Stable / CARE A3+ (01-Dec-20)	1)CARE BBB; Stable / CARE A3+ (28-Nov-19)	1)CARE BBB; Positive / CARE A3+ (27-Dec-18)

**Annexure-3: Complexity level of various instruments rated for this company**

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

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

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**About CARE Ratings:**

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