Shiva Mills Limited

February 06, 2018

Ratings

Facilities	Amount (Rs. Crore)	Ratings[1]	Remarks
Long-term Bank Facilities	45.92	**CARE BBB; Stable (Triple B; Outlook:stable)**	**Assigned**
Short-term Bank Facilities	45.10	**CARE A3+ (A Three Plus)**	**Assigned**
Long/ Short-term Bank Facilities	10.00	**CARE BBB/CARE A3+ (Triple B; Outlook:stable /A Three Plus)**	**Assigned**
Total Bank Facilities	**101.02 (Rupees One Hundred one crore and two lakh only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Shiva Mills Limited (SML, formerly STYL Textile Ventures Limited) factor in Long track record of operations in the textile Industry, Benefit of being part of Bannari Amman group; Synergies of operations with Bannari Amman Spinning Mills Ltd (BASML) and Shiva Texyarn limited (STL), availability of Captive power and financial risk profile characterized by low leverage levels and satisfactory debt coverage indicators. The ratings are constrained by moderate size of operations, Inherent volatility associated with the raw material and finished goods prices and its impact on the profitability and cyclical nature of the textile industry.

Detailed description of the key rating drivers

Key Rating Strength

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 STL before demerger. The demerger of STL was approved by NCLT on 29th August 2017 with appointed date being April 01, 2015. Post demerger, the spinning Unit-I with capacity of 39,072 spindles along with connected wind mills with capacity of 10.65 MW was transferred to SML, while the Spinning Unit-II with capacity of 52,416 spindles and located at Tirupur, Tamil Nadu Technical Textile division (TTD), processing and others along with connected wind mills with capacity of 18.145 MW is retained by STL. The Unit-I had commenced commercial production of yarn in 1989 under STL with installed capacity of 24,681 spindles, and increased its capacity to 39,072 spindles as at the end of March 2017. Unit-I manufactures mainly cotton hosiery yarn with an average count of 25s-40s and has established customer base of 400 customers. The exports contributed 15.2% of the overall sales of the company during FY17. The company intends to operate with existing spinning unit alone over the medium term.

Benefit of being part of Bannari Amman group (BAG) including Synergies of operations with Bannari Amman Spinning Mills Ltd (BASML) and STL: SML is a part of BAG, based in South India, having varied business interests including sugar, distilleries, textiles, granite, wind power energy, education, health care, real estate, automobiles etc. The flagship company of BAG, Bannari Amman Sugars Limited (rated 'CARE A+; Positive', 'CARE A1+') is primarily engaged in the manufacture of sugar. However, there has been no financial transaction/ extension of financial support between BASL, its associate companies and SML.

BASML, a group company (rated 'CARE BBB+; Stable', 'CARE A3+') is also engaged in spinning business with an installed capacity of 1,44,240 spindles as at the end of September 2017. Most of the senior management resources are shared between the companies. One of the important functions, sourcing of cotton is done at the group level as higher volume results in benefits to the group. The marketing and production strategies are also formulated keeping the interest of both the companies in perspective. However, there have been very limited financial transactions between these two

[1] *Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications*

companies. The company also shares common customer base with STL however SML manufactures mainly cotton hosiery yarn with an average count of 25s-40s and STL manufactures average count of 162,20s and 30s.

Comfortable financial position with low leverage levels: The company's tangible networth was around Rs. 74 crore and total long term debt was around Rs.12 crore as on March 31, 2017 which correspond to Unit-I. The spinning unit of SML is relatively older and most of the debts borrowed for the unit has been already repaid by STL. On account of same debt equity ratio remained comfortable at 0.17x as on March 31, 2017. Overall gearing also stood at 0.9x as on March 31, 2017.

Availability of captive power: STL has captive windmills with an aggregate capacity of 10.65 MW. The power from windmills catered to 70 - 75% of the company's total power requirement in the past. Unlike in the earlier years, TANGEDCO was able to evacuate most of the wind energy generated by the Windmills as a result of which the performance of the windmills improved during FY17 which has also aided in improvement in profitability in FY17(PLF during FY17 was 21% as against 12% during FY16).

Key Rating Weaknesses

Moderate size of operations: SML derives majority of its sales from spinning business. In FY17, the spinning division accounted for 64% of total income with remaining contributed by revenue from knitted fabric however the knitting process is outsourced. The contribution from knitted fabric is expected to be limited going forward.

SML's overall sales was around Rs. 171 crore and PAT was Rs. 5 crore in FY17 which was entirely from Unit-I. However on a like to like basis, the overall sales from Unit-I was Rs.143 crore during FY16. The company's profitability remained satisfactory during FY17 with PDILDT margin was around 12.6% and PAT margin was around 2.6%.

Outlook and prospects: With expected increase in acreage for cotton in CS18 cotton production is expected to increase by about 11% in the current cotton season. The prices are expected to moderate on back of higher availability in the domestic market. In FY18 (Apr-Aug), production of cotton yarn continued to decline marginally on back of sluggish demand in the domestic market. Cotton yarn prices are volatile due to volatility in the demand which is majorly impacted by exports of cotton and cotton yarn. Therefore, even a minute change in the exports demand supply scenario will impact domestic prices.

SML's financial performance was satisfactory in FY17. Though the size of operations is moderate, the financial position of the company is comfortable. SML's profitability and credit protection measures would continue to remain exposed to inherent volatility in cotton and yarn prices and demand prospects. Going forward, the ability of the company to improve its scale operations and any large debt funded capex will be the key rating sensitivity.

Analytical approach: Standalone approach and factoring in the linkages with group/parent

Applicable Criteria

Rating Methodology-Manufacturing Companies
Rating Methodology- Cotton Yarn Industry
Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
Financial ratios (Non-Financial Sector)
Rating Methodology-Factoring Linkages in Ratings

About the Company

SML was incorporated by STL as subsidiary in order to demerge one of the units from STL. SML manufactures mainly cotton hosiery yarn with an average count of 25s-40s and has a spinning unit with capacity of 39,072 spindles along with connected wind mills with capacity of 10.65 MW. In addition to production and sale of yarn, the company also sells knitted fabric wherein production is outsourced on job work basis. As on March 31, 2017, 90% of the shares of SML was held by STL and remaining was held by nominees of STL. According to the demerger scheme, the shareholders of STL would get two shares of SML and retain three shares of STL for every five equity shares of STL held before demerger. The allotment is completed and SML would also be listed in stock exchange shortly post which it would cease to be the subsidiary of STL. SML is part of the Coimbatore based Bannari Amman Group (BAG) of companies which has presence in textiles, automobile dealership and sugar.

Brief Financials (Rs. crore)	FY17 (A)*
Total operating income	172
PBILDT	22
PAT	5
Overall gearing (times)	0.91
Interest coverage (times)	3.43

*A: Audited; * For the purpose of Demerger, STYL Textile Ventures Limited was incorporated on November 24, 2015 however there were no major operations. The name was subsequently changed to SML.*

Status of non-cooperation with previous CRA: NA

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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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-Cash Credit	-	-	November 2022	8.42	CARE BBB; Stable
Fund-based - LT-Term Loan (proposed)	-	-	-	37.50	CARE BBB; Stable
Non-fund-based - ST-Letter of credit	-	-	-	14.00	CARE A3+
Non-fund-based - LT/ ST-Bank Guarantees	-	-	-	31.10	CARE A3+
Fund-based - ST-Working Capital Limits	-	-	-	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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Fund-based - LT-Term Loan	LT	8.42	CARE BBB; Stable	-	-	-	-
2.	Fund-based-Long Term	LT	37.50	CARE BBB; Stable	-	-	-	-
3.	Fund-based-Short Term	ST	14.00	CARE A3+	-	-	-	-
4.	Non-fund-based-Short Term	ST	31.10	CARE A3+	-	-	-	-
5.	Fund-based/Non-fund-based-LT/ST	LT/ST	10.00	CARE BBB; Stable / CARE A3+	-	-	-	-

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