

Shiva Mills Limited

November 28, 2019

Ratings

Facilities	Amount (Rs. crore)	Ratings ¹	Rating Action
Long-term Bank Facilities	41.41 (Reduced from 42.82)	CARE BBB; Stable (Triple B; Outlook:Stable)	Revised from CARE BBB; Positive (Triple B; Outlook:Positive)
Short-term Bank Facilities	25.10 (Reduced from 45.10)	CARE A3+ (A Three Plus)	Reaffirmed
Long/Short-term Bank Facilities	10.00	CARE BBB; Stable /CARE A3+ (Triple B; Outlook:Stable/ A Three Plus)	CARE BBB; Positive / CARE A3+ (Triple B; Outlook:Positive /A Three Plus)
Total Facilities	76.51 (Rupees Seventy- Six crore and Fifty- One lakh only)		

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 comfortable financial risk profile characterized by low leverage levels and satisfactory debt coverage indicators. The ratings are constrained by moderate size of operations and vulnerability to volatile cotton/yarn prices.

The outlook had been revised from 'Positive' to 'Stable' on account of the continuous decline in sales and profitability during the last three quarters leading to lower cash accruals and is expected to be lower than envisaged for the year due to tepid operating environment.

Rating Sensitivities

Positive Factors

- Scaling up of operations and improving profitability while maintaining comfortable capital structure with gearing levels of below unity

Negative Factors

- Any large debt-funded capital expenditure leading to moderation of the capital structure and current ratio below 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) aged 75 years 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 STL before demerger during 2017. The Unit-I 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 2019. The top 10 customers of SML constituted around 30% (PY: 27%) of the total sales in FY19 (refers to the period April 1 to March 31). SML also has windmills of capacity 10.65 MW which meets around 75% of SML's power requirements.

Comfortable financial position with low leverage levels: The debt equity ratio remained comfortable at 0.06x as on March 31, 2019 (PY: 0.10x) and the overall gearing stood at 0.65x as on March 31, 2019 (PY: 0.74x). The debt coverage indicators improved with Total debt / GCA of 5.29x (PY: 6.77) as on March 31, 2019.

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

Key Rating Weaknesses

Moderate size of operations with improved profitability in FY19, however declined during H1FY20: SML derives majority of its sales revenue from spinning business. In FY19, the spinning division accounted for 93 % (PY: 85%) of total income during FY19. The PBILDT margin improved from 9.86% in FY18 to 11.41% in FY19 on account of better realization of yarn. During H1FY20, the company reported PAT of Rs.0.8 crore on a total income of Rs.74.8 crore as against PAT of Rs.4.9 crore on a total income of Rs.93.8 crore in H1FY19. The PBILDT margin declined to 8.68% (viv-a-vis 13.84% in H1FY19) in H1FY20 on account of higher raw material cost.

Exposure to volatility in raw material prices: Cotton, the key raw material has exhibited high volatility in prices in the past and in turn impacts the profitability of the company. The prices of cotton and yarn are governed by various factors such as area under cultivation, monsoon, export quota by the government, international demand-supply situation etc. The average purchase cost of cotton for SML increased from Rs.123 per kg in FY18 to Rs.143 per kg in FY19.

Liquidity: Adequate – Adequate liquidity characterized by sufficient cushion in accruals vis-à-vis repayment obligations and modest cash balance of Rs.4.81 crore as on March 31, 2019. SML maintains inventory holding period of 80 to 100 days and extends credit period of 30 to 40 days based on the buyer. The credit period extended by the suppliers remained between 15 and 20 days. The average utilization of working capital limits stood at 72.56% for 12 months ending October 2019.

Analytical approach:

Standalone

Applicable Criteria

[CARE's methodology for manufacturing companies](#)

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

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

[Criteria for Short Term Instruments](#)

[Financial ratios – Non-Financial Sector](#)

[Rating Methodology for Cotton textile Manufacturing](#)

About the Company

Shiva Mills Limited (SML, formerly, STYL Textile Ventures Limited) was incorporated by Shiva Texyarn Limited as subsidiary in order to demerge one of the spinning units from Shiva Texyarn Limited (STL, rated 'CARE BBB; Stable/A3+'). As per the scheme of demerger approved by Company Law Tribunal, Chennai on vide its order dated 23.08.2017, 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)	FY18 (A)	FY19(A)
Total operating income	169.83	175.76
PBILDT	16.74	20.05
PAT	3.87	6.60
Overall gearing (times)	0.74	0.65
Interest coverage (times)	2.79	2.67

Status of non-cooperation with previous CRA:

Not Applicable

Any other information:

Not Applicable

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

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	-	-	November 2022	3.91	CARE BBB; Stable
Fund-based-Long Term	-	-	-	37.50	CARE BBB; Stable
Fund-based-Short Term	-	-	-	4.00	CARE A3+
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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - LT-Term Loan	LT	3.91	CARE BBB; Stable	-	1)CARE BBB; Positive (27-Dec-18)	1)CARE BBB; Stable (06-Feb-18)	-
2.	Fund-based-Long Term	LT	37.50	CARE BBB; Stable	-	1)CARE BBB; Positive (27-Dec-18)	1)CARE BBB; Stable (06-Feb-18)	-
3.	Fund-based-Short Term	ST	4.00	CARE A3+	-	1)CARE A3+ (27-Dec-18)	1)CARE A3+ (06-Feb-18)	-
4.	Non-fund-based-Short Term	ST	21.10	CARE A3+	-	1)CARE A3+ (27-Dec-18)	1)CARE A3+ (06-Feb-18)	-
5.	Fund-based/Non-fund-based-LT/ST	LT/ST	10.00	CARE BBB; Stable / CARE A3+	-	1)CARE BBB; Positive / CARE A3+ (27-Dec-18)	1)CARE BBB; Stable / CARE A3+ (06-Feb-18)	-

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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