

## Shiva Mills Limited

December 01, 2020

### Ratings

Facilities	Amount (Rs. crore)	Ratings	Rating Action
Long Term Bank Facilities	39.93 (Reduced from 41.41)	<b>CARE BBB; Stable (Triple B; Outlook: Stable )</b>	Reaffirmed
Long Term / Short Term Bank Facilities	10.00	<b>CARE BBB; Stable / CARE A3+ (Triple B ; Outlook: Stable/ A Three Plus )</b>	Reaffirmed
Short Term Bank Facilities	21.10	<b>CARE A3+ (A Three Plus )</b>	Reaffirmed
Short Term Bank Facilities	-	-	Withdrawn
<b>Total Bank Facilities</b>	<b>71.03 (Rs. Seventy-One Crore and Three 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, 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.

#### Key Rating Sensitivities:

##### Positive factor

- Ability of the company to improve the scale of operations with operating income of over Rs. 300 crore and PBILDT margin of above 13% 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 10 customers of SML constituted around 20% (PY: 30%) of the total sales in FY20 (refers to the period April 1 to March 31).

**Comfortable financial position with low leverage levels:** The debt equity ratio remained comfortable at 0.04x as on March 31, 2020 (PY: 0.06x) and the overall gearing stood at 0.49x as on March 31, 2020 (PY: 0.65x). The debt coverage indicators moderated however stood comfortable with Total debt / GCA of 6.75x (PY: 5.29x) as on March 31, 2020.

#### Key Rating Weaknesses

**Moderate size of operations with lower profitability:** The scale of operations remained moderate with operating income of Rs.164.48 crore in FY20 as against Rs.175.76 crore in FY19. The PBILDT margin declined from 11.41% in FY19 to 7.59% in FY20 due to reduced sales realization of yarn. During H1FY21 (refers to the period April 1 to September 30), the company reported net loss of Rs.2.05 crore on a total income of Rs.46.06 crore as against PAT of Rs.0.8 crore on a total income of Rs.74.83 crore in H1FY20 due to impact on operations of the company following covid-19 induced lockdown for around two months.

**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

**Liquidity: Adequate** - Adequate liquidity is characterized by sufficient cushion in accruals vis-à-vis repayment obligations. The Company maintains inventory holding period of 80 to 100 days and extends credit period of 40 to 50 days based on the buyer. The credit period extended by the suppliers remained between 15 and 30 days. The average utilization of working capital limits stood at 64.27% for 12 months ending September 2020. The Company has not availed moratorium offered by banks in its facilities for the period from March to August 2020 for Covid-19 crisis.

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

The cotton production is estimated to increase by 10-11% to around 400 lakh bales in cotton season (CS 20-21), due to better yields and more sowing area (7% increase to 13.09 million hectares). Yields are expected to increase due to better monsoons in current season. During the first ten months (April-January) of FY20 cotton yarn output declined by 4% to 3.4 million tonnes. Weak cotton yarn export demand during FY20 affected India's output.

The demand distortions due to Covid 19 are expected to hurt the domestic textiles production. Cancellation of export orders has led to build-up of inventories with the textile companies. Given the unfavourable demand scenario, textile firms may not utilise their full capacities or may undertake production cuts thus bringing down the overall output of textiles during FY21. In addition to this, labour disruption (many labours have migrated to their hometowns) will also affect the total textile production numbers.

**Analytical approach:** Standalone

#### Applicable criteria:

[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](#)

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

[Rating methodology for Cotton Textile Manufacturing](#)

#### About the Company

Shiva Mills Limited (SML, formerly, STYL Textile Ventures Limited) was incorporated by Shiva Texyarn Limited (STL, rated 'CARE BBB-; Stable/A3') in order to demerge one of the spinning units from STL. SML currently has business spinning unit with capacity of 39,072 spindles located at Dindigul, Tamil Nadu along with 22 windmills with capacity of 10.65 MW. Registered under MSME as a Medium Enterprise, SML manufactures mainly cotton hosiery yarn with an average count of 25s-40s.

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	175.76	164.48
PBILDT	20.05	12.48
PAT	6.60	1.14
Overall gearing (times)	0.65	0.49
Interest coverage (times)	2.67	2.20

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	-	-	December 2022	2.43	CARE BBB; Stable
Fund-based-Long Term	-	-	-	37.50	CARE BBB; Stable
Fund-based-Short Term	-	-	-	0.00	Withdrawn
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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Term Loan	LT	2.43	CARE BBB; Stable	-	1)CARE BBB; Stable (28-Nov-19)	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; Stable (28-Nov-19)	1)CARE BBB; Positive (27-Dec-18)	1)CARE BBB; Stable (06-Feb-18)
3.	Fund-based-Short Term	ST	-	-	-	1)CARE A3+ (28-Nov-19)	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+ (28-Nov-19)	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; Stable / CARE A3+ (28-Nov-19)	1)CARE BBB; Positive / CARE A3+ (27-Dec-18)	1)CARE BBB; Stable / CARE A3+ (06-Feb-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-Short Term	Simple
4.	Fund-based/Non-fund-based-LT/ST	Simple
5.	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.

### Contact us

**Media Contact**

Mradul Mishra

Contact no. : +91-22-6837 4424

 Email ID: [mradul.mishra@careratings.com](mailto:mradul.mishra@careratings.com)
**Analyst Contact**

Name: Mr Naveen Kumar S

Mobile: 0422-4502399

 Email: [naveen.kumar@careratings.com](mailto:naveen.kumar@careratings.com)
**Relationship Contact**

Name: Mr. V. Pradeep Kumar

Contact no. : 98407 54521

 Email ID: [pradeep.kumar@careratings.com](mailto:pradeep.kumar@careratings.com)
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