Shiva Mills Limited

December 27, 2018

Ratings

Facilities	Amount (Rs. Crore)	Ratings[1]	Remarks
Long-term Bank Facilities	42.82 (reduced from 45.92)	**CARE BBB; Positive (Triple B; Outlook:Positive)**	**Revised from CARE BBB; Stable (Triple B; Outlook:Stable)**
Short-term Bank Facilities	45.10	**CARE A3+ (A Three Plus)**	**Reaffirmed**
Long/ Short-term Bank Facilities	10.00	**CARE BBB; Positive /CARE A3+ (Triple B; Outlook:Positive /A Three Plus)**	**CARE BBB; Stable /CARE A3+ (Triple B; Outlook:Stable/ A Three Plus)**
Total Bank Facilities	**97.92 (Rupees ninety Seven crore and ninety two lakhs only)**		

Details of instruments/facilities in Annexure-1

Rating Rationale

The ratings assigned to the bank facilities of Shiva Mills Limited (SML, formerly STYL Ventures Limited) continue to factor in Long track record of operations in the textile Industry, Benefit of being part of Bannari Amman group; Synergies of operations with 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

Outlook: Positive

The revision in the outlook assigned to the long-term bank facilities of SML is on account of expectation that the capital structure of SML would improve further in the absence of any major debt funded capex in the medium term notwithstanding the moderation in profitability witnessed in FY18 (refers to period from April 01 to March 31). The outlook, however, may be revised to 'Stable' if there is moderation in the capital structure.

Detailed description of the key rating drivers

Key Rating Strengths

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 Unit-I, now vested with SML had commenced commercial production of yarn in 1989 under STL with installed capacity of 24,681 spindles, and increased to 39,072 spindles as at the end of March 2018. Due to demerger, SML possessed this unit from STL along with connected windmills and operates under the name SML. Unit-I manufactures mainly cotton hosiery yarn with count range of 25s-40s and has established customer base of 400 customers. The exports contributed 8.64% (PY: 15.2%) of the overall sales of the company during FY18. The company intends to operate with existing spinning unit alone over the medium term.

Synergies of operations with STL

Shiva Texyarn Limited, a group company (STL, rated ‘CARE BBB; Stable, ‘CARE A3+’) is also engaged in spinning business with an installed capacity of 52,416 spindles as at the end of September 2018. The Cotton requirements of two companies (STL and SML) are aggregated and sourced/procured together to get scale benefits. Besides, most of the senior management resources are shared between the companies. 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 companies.

Comfortable financial position with low leverage levels

The company’s tangible Networth was around Rs. 77.52 crore and total long term debt was around Rs.7.44 crore as on March 31, 2018 as against Rs. 75.05 crore and Rs.12.44 crore as on March 31, 2017. The spinning unit of SML is relatively older and most of the debts borrowed for the unit has been already repaid. On account of same debt equity ratio

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

remained comfortable at 0.05x as on September 30, 2018 and 0.10x as on March 31, 2018 (PY:0.16x). Overall gearing also stood at 0.41x as on September 30, 2018 and 0.74x as on March 31, 2018 (PY:0.9x).

Availability of captive power

SML 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 FY18 which has also aided in improvement in profitability in FY18 (PLF during FY18 was 21% (PY:21%)). Also the company plans to increase windmill capacity by another 800kW in the next two years which would increase the captive consumption to 80-85%. The company would require Rs. 4-5 crore for increasing the windmill capacity which would be met from internal accruals.

Liquidity position

The company's liquidity position remained comfortable with total cash & bank balance stood at Rs.2.1 crore as on March 31, 2018 as against Rs.5.4 crore as on March 31, 2017. The company has sanctioned working capital limit of Rs.47.50 crore. In the past 12 months period ended November 2018, average utilization stood at around 71%. The company continues to witness comfortable liquidity position with stable cash accruals.

Key rating weaknesses

Moderate size of operations

SML derives majority of its sales revenue from spinning business. In FY18, the spinning division accounted for 85% (PY: 64%) of total income during FY18 and increased to 93% during H1FY19. The remaining was contributed by revenue from knitted fabric (8% of total income) and sale of cotton waste (7%) during FY18. However, the company discontinued Fabric manufacturing from Q2FY18 onwards. During H1FY19, sale of cotton waste contributed 7% of total income.
SML reported PAT of Rs. 3.88 crore on a total income of Rs.171.10 during FY18 as against PAT of Rs.4.50 crore on a total income of Rs.170.00 crore. The PBILDT margin moderated to 9.62% during FY18 from 12.68% during FY17 on account of increase in raw material costs more than the yarn prices. During H1FY19, the company reported PAT of Rs.4.95 crore on a total income of Rs. 93.89 crore. The Company's PBILDT improved to 13.84% and PAT margin increased to 5.27% during H1FY19 as against 10.30% and 2.41% during H1FY18. The improvement in the profitability during H1FY19 is mainly on account of increase in cotton yarn price from Rs. 218 per kg during FY18 to Rs. 230 per kg during H1FY19 and benefits of low cost cotton inventory at the beginning of the year.

Industry Outlook and Prospects

Acreage for cotton in the country is estimated at 12.3 million hectares in cotton season 2017-18, higher by about 12.8% y-o-y. Production in Cotton Season 2017-18 (CS18) increased by 8% to 6.4 billion kgs after marginally increasing by 2% y-o-y in CS17. Cotton prices during the year remained largely stable or increased only marginally on back of higher supply in the market.
Cotton yarn production in India continued to remain sluggish during the CS18 registering only a marginal growth of about 0.1% y-o-y after declining by about 2% during the CS17. Subdued export demand along with high cotton prices and availability of MMF (man-made fibres) led to slower growth of production of cotton yarn. Further, with the goods and services tax (GST) implementation in July 2017, the overall textiles industry faced slowdown. Going forward, in CS19, with high cotton prices and sluggish domestic and export demand for cotton yarn, the yarn production is expected to stagnate at the current levels.
In CS19, cotton prices are expected to marginally pick up from the current levels and remain firm with the new cotton arrivals in the market on back of improved global demand (exports) and increased MSP by the Government. With limited supply in the market during H1 CS19 on account of increased orders from China, prices are expected to register a growth of about 5-7% and reach Rs 122 - 125 per kg during this period and average at about Rs 127 - 130 per kg for CS19 registering a y-o-y growth of about 9-11%.
The operational performance of SML has remained stable in FY18. Due to change in tax structure there was change in product mix in FY18 as compared to FY17 wherein proportion of yarn in total sales has increased. Notwithstanding the stable operational performance due to lower increase in yarn realization as compared to increase in cotton cost, SML witnessed moderation in profitability. However, with long track record of operations and low leverage levels the financial position of SML continues to remain stable. The financial performance has also witnessed improvement in H1FY19. 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

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

Shiva Mills Limited (SML, formerly, STYL Textile Ventures Limited) was incorporated by Shiva Texyarn Limited (STL, rated CARE BBB; Stable) as subsidiary in order to demerge one of the spinning units from STL. 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) with capacity of 39,072 spindles located at Dindigul, Tamil Nadu along with connected windmills with capacity of 10.65MW was demerged into SML with effective from 01 April 2015. It may be noted that Unit-1 is operational since 1989. In addition to production and sale of yarn, the company also sold knitted fabric wherein production is outsourced on job work basis however from Q2FY18, the company discontinued its sale of fabric since GST for Yarn and knitted fabric was same at 5% (earlier nil tax for knitted fabric and 5% for cotton yarn). The company manufactures mainly cotton hosiery yarn with an average count of 25s-40s.

SML belongs to Coimbatore based Bannari Amman Group (BAG) of companies 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. Currently, Mr.S.V.Alagappan, (brother of Mr.S.V. Balasubramaniam) controls the business of SML and is the Chairman and Managing Director of SML.

Brief Financials (Rs. crore)	FY17* (A)	FY18 (A)
Total operating income	172	171
PBILDT	22	16
PAT	5	4
Overall gearing (times)	0.91	0.74
Interest coverage (times)	3.43	2.75

*A: Audited * For the purpose of Demerger, STYL Ventures Limited was incorporated on November 24, 2015 however there were no major operations under the name STYL Ventures Limited. The name was then changed to SML during FY17 and started operating under the name "Shiva Mills Limited"*

Status of non-cooperation with previous CRA: NA

Any other information: NA

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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Annexure1: Details of Rated 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	5.32	CARE BBB; Positive
Fund-based-Long Term	-	-	-	37.50	CARE BBB; Positive
Fund-based-Short Term	-	-	-	14.00	CARE A3+
Non-fund-based-Short Term	-	-	-	31.10	CARE A3+
Fund-based/Non-fund-based-LT/ST	-	-	-	10.00	CARE BBB; Positive / CARE A3+

Annexure-2: Rating History of last three years

Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
	Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
Fund-based - LT-Term Loan	LT	5.32	CARE BBB; Positive	-	1)CARE BBB; Stable (06-Feb-18)	-	-
Fund-based-Long Term	LT	37.50	CARE BBB; Positive	-	1)CARE BBB; Stable (06-Feb-18)	-	-
Fund-based-Short Term	ST	14.00	CARE A3+	-	1)CARE A3+ (06-Feb-18)	-	-
Non-fund-based-Short Term	ST	31.10	CARE A3+	-	1)CARE A3+ (06-Feb-18)	-	-
Fund-based/Non-fund-based-LT/ST	LT/ST	10.00	CARE BBB; Positive / CARE A3+	-	1)CARE BBB; Stable / CARE A3+ (06-Feb-18)	-	-

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