Shiva Texyarn Limited

October 01, 2018

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long-term Bank Facilities	145.90 (enhanced from 129.38)	**CARE BBB; Stable (Triple B; Outlook:stable)**	Reaffirmed
Short-term Bank Facilities	50.00 (enhanced from 35.00)	**CARE A3+ (A Three Plus)**	Reaffirmed
Long/ Short-term Bank Facilities	70.00 (enhanced from 55.00)	**CARE BBB; Stable/CARE A3+ (Triple B; Outlook:Stable/A Three Plus)**	Reaffirmed
Total Bank Facilities	**265.90 (Rupees Two Hundred Sixty Five crore and Ninety lakh only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings continue to factor in the established track record of operations of Shiva Texyarn Limited (STL) in the textile industry, benefit of being part of Bannari Amman group including synergies of operations with Bannari Amman Spinning Mills Ltd (BASML), availability of captive power and increased focus on diversifying its revenue stream with growing share of income from non-spinning divisions. The ratings continue to remain constrained by inherent price volatility of cotton and yarn, which has a significant bearing on the company's profitability, moderately leveraged capital structure and relatively high debt to cash accruals.

Going forward, the ability of the company to improve its scale operations, further diversification in revenue stream, improvement in profitability, cash accruals and capital structure will be key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

Established track record of operations

Having commenced commercial production of yarn in 1989 as a relatively small-sized player with an installed capacity of 24,681 spindles, STL has grown into a medium-sized player with 52,416 spindles as on March 31, 2018 with the setting up of an additional spinning unit and capacity augmentation programs undertaken in the past. STL also has garments unit with 120 sewing machines, processing unit and technical textiles division which focuses on Lamination and Coating technology. The technical textile unit supports the business.

Benefit of being part of Bannari Amman group (BAG) including Synergies of operations with Bannari Amman Spinning Mills Ltd (BASML)

STL 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.

Bannari Amman Spinning Mills Limited (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 March 2018. The cotton requirements of three companies (BASML, STL and Shiva Mills Limited (SML)) are aggregated and sourced/procured together to get scale benefits. 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.

Moderately diversified revenue stream

STL generates majority of its income from sale of cotton yarn. During FY18, cotton yarn accounted for 59% sales. In addition, the company also generates income from sale of knitted fabrics, garments and technical textiles. Technical textile products such as coated and laminated fabrics are used in baby care, medical and defence segment. One of the notable product under technical textiles is laminated fabric sold under the brand name 'Quick Dry'. In respect of defence segment the company sells various products including Nuclear Biological Chemical (NBC) suites and bagpacks.

In the past three years, share of yarn and fabric declined from 84% in FY16 to 62% in FY18 (refers to the period April 01 to March 31) and contribution from non-spinning divisions viz garment and technical textile division increased from 12% in FY16 to 32% in FY18, providing moderate diversification of revenue stream. Company is also engaged in export of yarn, coated fabric and garments. However, share of exports stood around 21% of total income in FY18 (PY:21.5%).

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

Availability of captive power
STL has captive windmills with an aggregate capacity of 18.145 MW. The power from windmills caters to 65 - 70% of the company's power requirement as a result STL was able to manage the situation during power crisis in the state of Tamil Nadu in the past.

Key Rating Weaknesses
Moderation in sales during FY18 however profitability remains stable
STL's overall sales declined by 6% to Rs. 360 crore during FY18 from Rs. 383 crore during FY17 due to decreased sales in technical textiles. Sales from technical textiles (coated and laminated fabric) stood at Rs.63 crore in FY18 as against Rs.84 crore in FY17 as there was moderation in orders in FY18 and also effect of execution of onetime order in FY17. Furthermore, FY18 has witnessed change in sales mix wherein share of garment increased significantly due to supply to Ministry of Defence. Also due to shift in production towards finer yarn counts resulted in drop in overall sales volume of yarn & knitted fabric by 13% in FY18. The company's profitability remained stable during FY18 with PDILDT margin of around 12.74% as against 12.49% during FY17 inspite of increase in employee cost which was offset by decrease in raw material prices. Similarly, PAT margin during FY18 improved to 3.1% from 2.7% during FY17.

Moderately leveraged capital structure
The company's total networth stood at Rs.108 crore in FY18 as against Rs.99 crore in FY17. In order to augment its cash flow position, STL availed working capital term loan of Rs.30 crore during FY18. Debt equity ratio and overall gearing ratio stood moderate at 0.92 x and 1.67 x respectively as on March 31, 2018 as against 0.94 x and 1.68 x as on March 31, 2017. However, the total debt to Gross cash accruals during FY18 remained relatively high at 7.3 times as against 6.54 times in FY17.

Industry
After increasing by about 2% in cotton season (CS) 2016-17, India's cotton production is expected to witness a higher growth rate of over 8% in CS 2017-18 on back of increased acreage under cotton with favourable weather conditions. Cotton yarn production in India continued to remain subdued during the 2017-18. Subdued export demand along with high cotton prices and availability of MMF (manmade fibres) led to slower growth of production of cotton yarn**.** Also, with the goods and services tax (GST) implementation in July 2017, the overall textiles industry faced slowdown.

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)

About the Company
Incorporated in 1980 as 'Annamalai Finance Private Ltd' (AFL), Shiva Texyarn Ltd (STL) was converted into a Public Limited Company in 1985. STL is primarily engaged in the manufacture and marketing of yarn to both domestic and export markets. One of the units of STL was hived off into a separate company namely Shiva Mills Ltd (SML, rated 'CARE BBB; Stable', 'CARE A3+') in August 2017 (effective from April 2015). Presently, STL has an aggregate spinning capacity of 52,416 spindles situated in Tiruppur, wind mills of 18.145 MW, garments unit with 120 sewing machines, processing and technical textiles division which focuses on Lamination and Coating technology. STL is part of the Coimbatore based Bannari Amman Group (BAG) of companies which has presence in textiles, automobile dealership and sugar among others.

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	383	360
PBILDT	48	46
PAT	10	11
Overall gearing (times)	1.68	1.67
Interest coverage (times)	2.32	2.38

A: Audited
Status of non-cooperation with previous CRA: NA
Any other information: NA
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
Term Loan-Long Term	-	-	March 2024	88.90	CARE BBB; Stable
Fund-based-Short Term	-	-	-	20.00	CARE A3+
Fund-based-Long Term	-	-	-	57.00	CARE BBB; Stable
Non-fund-based-Short Term	-	-	-	30.00	CARE A3+
Fund-based/Non-fund-based-LT/ST	-	-	-	70.00	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 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
1.	Term Loan-Long Term	LT	88.90	CARE BBB; Stable	-	1)CARE BBB; Stable (29-Jan-18)	1)CARE BBB (Under Credit Watch) (10-Oct-16)	1)CARE BBB (01-Dec-15)
2.	Fund-based-Short Term	ST	20.00	CARE A3+	-	1)CARE A3+ (29-Jan-18)	1)CARE A3+ (Under Credit Watch) (10-Oct-16)	1)CARE A3+ (01-Dec-15)
3.	Fund-based-Long Term	LT	57.00	CARE BBB; Stable	-	1)CARE BBB; Stable (29-Jan-18)	1)CARE BBB (Under Credit Watch) (10-Oct-16)	1)CARE BBB (01-Dec-15)
4.	Non-fund-based-Short Term	ST	30.00	CARE A3+	-	1)CARE A3+ (29-Jan-18)	1)CARE A3+ (Under Credit Watch) (10-Oct-16)	1)CARE A3+ (01-Dec-15)
5.	Fund-based/Non-fund-based-LT/ST	LT/ST	70.00	CARE BBB; Stable / CARE A3+	-	1)CARE BBB; Stable / CARE A3+ (29-Jan-18)	1)CARE BBB / CARE A3+ (Under Credit Watch) (10-Oct-16)	1)CARE BBB / CARE A3+ (01-Dec-15)

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