Shiva Texyarn Limited

January 29, 2018

Ratings

Facilities	**Amount (Rs. Crore)**	**Ratings[1]**	**Remarks**
Long-term Bank Facilities	129.38 (reduced from 205.38)	**CARE BBB; Stable (Triple B; Outlook:stable)**	**Removed from credit watch; Rating Reaffirmed**
Short-term Bank Facilities	35.00 (reduced from 85.10)	**CARE A3+ (A Three Plus)**	**Removed from credit watch; Rating Reaffirmed**
Long/ Short-term Bank Facilities	55.00 (reduced from 65.00)	**CARE BBB; Stable/CARE A3+ (Triple B; Outlook:Stable/A Three Plus)**	**Removed from credit watch; Rating Reaffirmed**
Total Bank Facilities	**219.38 (Rupees Two Hundred Ninteen crore and Thirty Eight lakh only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The Ratings of Shiva Texyarn Limited (STL) were earlier placed under ‘credit watch’ following the proposed demerger of STL. STL had two spinning units, one each in Dindigul (Unit I) and Tirupur (Unit II). The unit in Tirupur also has a technical textiles division (TTD) to manufacture value added products such as coated and laminated fabrics among others. While the Unit I and associated windmills was hived off into a new company called Shiva Mills Limited (SML), Unit II, TTD and associated windmills will continue to operate under STL. In view of completion of Demerger process and based on review of standalone financials of STL, the ratings assigned to bank facilities of STL have been reaffirmed and removed from credit watch.

The ratings continue to factor in the established track record of operations of STL in the textile industry, Benefit of being part of Bannari Amman group, Synergies of operations with Bannari Amman Spinning Mills Ltd (BASML), increasing focus on technical textiles and availability of captive power. 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.

Detailed description of the key rating drivers

Key Rating Strength

Established track record of operations in the textile industry: 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 91,488 spindles (including Unit-I) as on March 31, 2017 with the setting up of an additional spinning unit and capacity augmentation programs undertaken in the past. STL also had 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 and the contribution from these units to the company’s revenue improved in the recent past. The demerger of STL was approved by NCLT on 29th August 2017 with appointed date being April 01, 2015. Post demerger, STL has retained the spinning Unit-II with capacity of 52,416 spindles located at Tirupur, Tamil Nadu along with connected wind mills with capacity of 18.145 MW, Technical Textile division (TTD), processing and others while the Spinning Unit-I with capacity of 39,072 spindles located at Dindigul, Tamil Nadu along with connected wind mills with capacity of 10.65MW is transferred to Shiva Mills Ltd (SML, formerly STYL textile Ventures Limited)

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

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. 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 companies.

Increasing focus on technical textiles: The cotton yarn and fabric business continues to form the largest portion of STL's net sales which accounted for 52% share in FY17 (P.Y 67%) however the contribution from the coated/laminated fabric and garment sales increased during FY17 which accounted for 21% as against 13% during FY16. The sales of technical textile products such as coated and laminated fabrics which are used in medical, defence segment amounted to Rs.84 crore in FY17 from Rs.47 crore in FY16. "Quick Dry'', reusable and washable sheet ideal for babies is retailed across India. Also, the company is manufacturing and marketing of backpack bags with brand name 'WULF' to cater the growing demand of backpacks and travel bags. STL plans to introduce more such products in the near term with focus on R&D.

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.

Key Rating Weaknesses
Reduction in sales due to demerger of Spinning unit-I during FY17 however overall profitability remains stable: On account of demerger of spinning unit-I along with connected windmills, STL's overall sales reduced to Rs. 378 crore during FY17 from Rs. 441 crore during FY16. However on a like to like basis, the overall sales from spinning unit-II along with technical textiles during FY17 was Rs.378 crore as against Rs.300 crore during FY16 supported by increased sales in garments and coated &laminated fabrics. However the yarn sales reduced from Rs. 203 crore during FY16 to Rs. 197 crore during FY17 due to decrease in the sales volume of yarn (10% y-o-y decrease). The company's overall profitability remained stable during FY17 with PDILDT margin was around 12.4% as against 12.2% during FY16 due to transfer of overhead costs and other costs of spinning unit-I during demerger activity. Similarly, PAT margin during FY17 improved to 2.7% from 2.4% during FY16.

Moderately leveraged capital structure: Due to demerger of SML from STL, the company's total networth reduced to the extent of Rs. 63.7 crore however the total debt also reduced by Rs. 102 crore by transferring the same to SML during FY17. In order to augment its cash flow position, STL availed working capital term loan of Rs.15 crore during FY17. With transfer of capital and borrowings to SML, steady repayment in term debt and accretion to reserves, overall gearing stood at 1.68 times as on 31st March 2017 as against 1.54 times as on 31st March 2016. However, the total debt to Gross cash accruals during FY17 remained relatively high at 6.5 times though it was improved from 8.5 times during FY16.

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. Prior to de-merger, STL had an aggregate spinning capacity of 91,488 spindles (Unit I with capacity of 39,072 spindles situated in Dindigul and established in 1989 and Unit II with capacity of 52,416 spindles situated in Tiruppur and established in 2010). STL also had garments unit with 120 sewing machines, processing unit 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.

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)*
Total operating income	451	437
PBILDT	55	48
PAT	11	11
Overall gearing (times)	1.54	1.68
Interest coverage (times)	2.35	2.33

A: Audited;

** FY17 financial pertains to demerged entity of STL and not comparable with earlier years.*

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	-	-	-	15.00	CARE AA; Stable
Fund-based - LT-Term Loan (proposed)	-	-	-	10.00	CARE AA; Stable
Non-fund-based - ST-Letter of credit	-	-	-	1.50	CARE A1+
Non-fund-based - LT/ ST-Bank Guarantees	-	-	-	4.00	CARE AA; Stable / CARE A1+
Fund-based - ST-Working Capital Limits	-	-	-	15.00	CARE A1+

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.	Term Loan-Long Term	LT	77.38	CARE BBB; Stable	-	1)CARE BBB (Under Credit Watch) (10-Oct-16)	1)CARE BBB (01-Dec-15)	1)CARE BBB (24-Sep-14)
2.	Fund-based-Short Term	ST	20.00	CARE A3+	-	1)CARE A3+ (Under Credit Watch) (10-Oct-16)	1)CARE A3+ (01-Dec-15)	1)CARE A3+ (24-Sep-14)
3.	Fund-based-Long Term	LT	52.00	CARE BBB; Stable	-	1)CARE BBB (Under Credit Watch) (10-Oct-16)	1)CARE BBB (01-Dec-15)	1)CARE BBB (24-Sep-14)
4.	Non-fund-based-Short Term	ST	15.00	CARE A3+	-	1)CARE A3+ (Under Credit Watch) (10-Oct-16)	1)CARE A3+ (01-Dec-15)	1)CARE A3+ (24-Sep-14)
5.	Fund-based/Non-fund-based-LT/ST	LT/ST	55.00	CARE BBB; Stable / CARE A3+	-	1)CARE BBB / CARE A3+ (Under Credit Watch) (10-Oct-16)	1)CARE BBB / CARE A3+ (01-Dec-15)	1)CARE BBB / CARE A3+ (24-Sep-14)

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