

## Shiva Texyarn Limited

November 28, 2019

### Rating Ratings

Facilities	Amount (Rs. crore)	Ratings <sup>1</sup>	Rating Action
Long-term Bank Facilities	139.55 (Reduced from 145.90)	<b>CARE BBB-; Stable (Triple B Minus ; Outlook: Stable)</b>	Revised from CARE BBB; Stable (Triple B; Outlook: Stable)
Short-term Bank Facilities	50.00	<b>CARE A3 (A Three)</b>	Revised from CARE A3+ (A Three Plus)
Long/Short-term Bank Facilities	70.00	<b>CARE BBB-; Stable/ CARE A3 (Triple B Minus ; Outlook: Stable /A Three)</b>	Revised from CARE BBB; Stable/CARE A3+ (Triple B; Outlook: Stable /A Three Plus)
<b>Total Facilities</b>	<b>259.55 (Rupees Two Hundred Fifty Nine crore and Fifty Five lakh only)</b>		

Details of facilities in Annexure-1

### Detailed Rationale & Key rating drivers

The revision in the ratings assigned to the bank facilities of Shiva Texyarn Limited (STL) factors in the moderation in financial performance of the company leading to thin accruals during FY19 (refers to the period April 1 to March 31) and H1FY20 (refers to the period April 1 to September 30) against its large repayment obligations. The rating, however, continue to derive strength from vast experience of the promoters in the textile industry, long track record of operations of the company, long-standing customer relationships with limited client concentration and a diverse product profile.

The ratings are, however, constrained by STL's moderate capital structure and debt coverage indicators, and profit margins exposed to volatility in the raw material prices.

### Rating Sensitivities

#### Positive factors

- Scaling up of operations in Technical Textile division, thereby reducing the dependence on commodity spinning business
- Ability to improve profitability on a consistent basis with PBDIT margins above 15%
- Generate adequate operating cash accruals against large repayment obligations
- Improve capital structure with gearing levels of below unity
- Improvement in liquidity position with current ratio in the range of 1.3x -1.5x

#### Negative Factors

- Further deterioration in profitability or cash losses being reported
- Any large debt-funded capital expenditure

### Detailed description of the key rating drivers

#### Key rating Strengths

**Vast experience of the promoters in the textile industry:** Shiva Texyarn Limited' formerly known as Annamallai Finance Limited was established in the year 1980. Mr S.V Alaagappan, the Chairman and promoter of the company, is a qualified law graduate and has experience in the textile industry for more than four decades. Mr S.K Sundararaman, the managing director of the company also has wide experience in textile industry.

**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, 2019. The Company is also engaged in export of yarn, coated fabric and garments.

**Diversified product profile and customer base:** STL generates majority (64% in FY19) of its income from sale of cotton yarn. The company has since FY13 diversified into other products such as knitted fabrics, garments and technical textiles. Technical textile products such as coated and laminated fabrics are used in baby care, medical and defence segment.

The company had diversified customer base with top ten customers in FY19 accounting for only 13% (PY: 18%) of the total sales.

<sup>1</sup>Complete definitions of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and other publications of CARE publications

### Key Rating Weaknesses

**Moderate financial performance during FY19 and H1FY20:** STL's overall sales remained relatively stable at Rs.354 crore during FY19 as against Rs.360 crore during FY18. On account of higher interest expense due to increased working capital borrowings the PAT margin declined from 3.15% in FY18 to 1.88% in FY19.

During H1FY20, the company reported operating income of Rs.180.5 crore (vis-à-vis Rs.180.1 crore in H1FY19) and the PBILDT margin declined to 10.85% as against 12.77% in H1FY19 due to higher cotton prices. The PAT margin further declined to 0.88% in H1FY20 (as against 2.38% in H1FY19) on account of higher interest expenses. In line with decline in operating profits, the GCA declined by 19.97% to Rs.19.71 crore in FY19 from Rs.24.63 crore in FY18 and further declined to Rs.8.6 crore in H1FY20.

**Moderately leveraged capital structure:** With a fall in profits in FY19, the company had resorted to avail a corporate loan of Rs.25 crore to support its working capital requirements resulting in an increase in leverage marked by overall gearing ratio to 1.80x as on March 31, 2019 as compared with 1.67x as on March 31, 2018. Profitability has remained subdued in H1FY20 as well and the company's debt coverage indicators have also deteriorated.

**Volatility in raw material prices:** The profitability of spinning mills depends largely on the prices of cotton and cotton yarn which are governed by various factors such as area under cultivation, monsoon, international demand-supply situation, etc. The cotton being the major raw material of spinning mills, movement in cotton prices without parallel movement in yarn prices impact the profitability of the spinning mills. The cotton textile industry is inherently prone to the volatility in cotton and yarn prices.

**Adequate liquidity:** STL's cash balance stood at Rs.4.4 crore as on March 31, 2019. The average utilization of working capital limits stood at 84.27% for 12 months ending September 2019. As on March 31, 2019, the current ratio of the company stood at 0.95x (PY: 0.86X) on account of higher working capital borrowings and large debt maturing within one year. The company's accruals are tightly matched with its repayments and it is expected that in case of any shortfall, the company is likely to take additional debt either from the promoters as was done in the FY19 or take general corporate loan. The company being a part of the larger Bannari Amman group enjoys a fair bit of financial flexibility in its ability to raise funds at competitive rates.

**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

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 and technical textiles. Presently, STL has an aggregate spinning capacity of 52,416 spindles situated in Tirupur, 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.

Brief Financials (Rs. crore)	FY18 (A)	FY19(A)
Total operating income	359.82	354.84
PBILDT	45.85	43.35
PAT	11.32	6.68
Overall gearing (times)	1.67	1.80
Interest coverage (times)	2.38	2.00

### 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
Term Loan-Long Term	-	-	March 2024	82.55	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 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.	Term Loan-Long Term	LT	82.55	CARE BBB-; Stable	-	1)CARE BBB; Stable (01-Oct-18)	1)CARE BBB; Stable (29-Jan-18)	1)CARE BBB (Under Credit Watch) (10-Oct-16)
2.	Fund-based-Short Term	ST	20.00	CARE A3	-	1)CARE A3+ (01-Oct-18)	1)CARE A3+ (29-Jan-18)	1)CARE A3+ (Under Credit Watch) (10-Oct-16)
3.	Fund-based-Long Term	LT	57.00	CARE BBB-; Stable	-	1)CARE BBB; Stable (01-Oct-18)	1)CARE BBB; Stable (29-Jan-18)	1)CARE BBB (Under Credit Watch) (10-Oct-16)
4.	Non-fund-based-Short Term	ST	30.00	CARE A3	-	1)CARE A3+ (01-Oct-18)	1)CARE A3+ (29-Jan-18)	1)CARE A3+ (Under Credit Watch) (10-Oct-16)
5.	Fund-based/Non-fund-based-LT/ST	LT/ST	70.00	CARE BBB-; Stable / CARE A3	-	1)CARE BBB; Stable / CARE A3+ (01-Oct-18)	1)CARE BBB; Stable / CARE A3+ (29-Jan-18)	1)CARE BBB / CARE A3+ (Under Credit Watch) (10-Oct-16)

**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](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

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