

Shiva Taxyarn Limited

December 21, 2020

Ratings

Facilities/Instruments	Amount (Rs. crore)	Ratings	Rating Action
Long term Bank Facilities	124.70 (Reduced from 139.55)	CARE BBB-; Stable (Triple B Minus; Outlook: Stable)	Reaffirmed
Long term / Short term Bank Facilities	70.00	CARE BBB-; Stable / CARE A3 (Triple B Minus ; Outlook: Stable/ A Three)	Reaffirmed
Short term Bank Facilities	40.00 (Reduced from 50.00)	CARE A3 (A Three)	Reaffirmed
Total Bank Facilities	234.70 (Rs. Two hundred thirty-four crore and seventy lakh only)		

Details of facilities in Annexure-1

Detailed Rationale & Key rating drivers

The ratings assigned to the bank facilities of Shiva Taxyarn Limited (STL) 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 diversified client and product profile.

The ratings are, however, constrained by STL's moderate capital structure and debt coverage indicators and exposure 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 PBILDT margins above 15%.
- 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

- Any large debt-funded capital expenditure leading to deterioration in overall gearing above 2x.
- Any extended impact of Covid-19 pandemic leading to further deterioration in profitability or cash losses being reported

Detailed description of the key rating drivers

Key Rating Strengths

Vast experience of the promoters in the textile industry: Shiva Taxyarn 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 around two decades of experience in the 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, 2020. STL also has garments unit with 120 sewing machines, processing unit and technical textiles division which focuses on Lamination and Coating technology. The company is also engaged in export of yarn, coated fabric and garments. The share of exports stood around 9.05% (PY: 21.21%) of the total income in FY20 (refers to the period April 1 to March 31).

Diversified product profile and customer base: The company has diversified product profile with presence in spinning and Technical Textile (TTD) products. The lamination division produces 'Quick Dry' sheets for babies, mattress protectors, etc., Under Coating division, STL produces Digital Canvas, Art canvas etc. During FY20, the spinning contributed to 67% of total income while the rest is contributed by the TTD and Waste Cotton. However during H1FY21 (refers to the period April 1 to September 30), the contribution of TTD increased to around 50% of the total income with introduction of various

healthcare products such as Covid-19 Protective Coveralls, Face masks, anti-viral fabrics etc. The company also has a diversified and reputed customer base with top ten customers accounting for only 16% (PY: 13%) of the total sales in FY20.

Key rating weakness

Declined profitability during FY20 however improved during H1FY21: The operating income of STL stood relatively stable at Rs.368.96 crore in FY20 as against Rs.354.84 crore in FY19. The PBILDT margin moderated from 12.22% in FY19 to 9.35% in FY20 due to fall in sales realization of yarn. The PAT margin also declined from 1.88% in FY19 to 0.42% in FY20. However, the PBILDT margin improved during H1FY21 to 15.00% as compared with 10.85% during H1FY20, mainly on account of the reduced cotton prices and higher contribution from high margin TTD sales.

Moderate capital structure and debt coverage indicators: The capital structure of STL continued to be moderate with overall gearing of 1.74x as on March 31, 2020 (PY: 1.80x). The debt coverage indicators stood moderated with Total debt / GCA of 11.96x (PY: 10.15) as on March 31, 2020, on account of the lower GCA during FY20.

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. The company sources cotton mostly domestic (Mostly S-6 and Bunny) and also imports from West Africa, Australia and US.

Liquidity: Adequate - Adequate liquidity characterized by sufficient cushion in accruals vis-à-vis repayment obligations and moderate cash balance of Rs.1.30 crore as on March 31, 2020. The company had opted for the first phase of moratorium for the period March-May 2020, on both interest and principal repayments. Its fund based working capital limits are utilized to the extent of 78.59% on an average for the past 12 months ended September 2020. As on March 31, 2020, the current ratio of the company stood at 0.91x (PY: 0.95X) on account of higher working capital borrowings and large debt maturing within one year.

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. 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 labourers 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](#)

[Financial ratios – Non-Financial Sector](#)

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

[Criteria for Short Term Instruments](#)

[CARE's methodology for manufacturing companies](#)

[Rating Methodology- 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.

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	354.84	368.96
PBILDT	43.35	34.48
PAT	6.68	1.55
Overall gearing (times)	1.80	1.74
Interest coverage (times)	2.00	1.55

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: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure 4

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	-	-	June 2025	70.70	CARE BBB-; Stable
Fund-based-Short Term	-	-	-	10.00	CARE A3
Fund-based-Long Term	-	-	-	54.00	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 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.	Term Loan-Long Term	LT	70.70	CARE BBB-; Stable	-	1)CARE BBB-; Stable (28-Nov-19)	1)CARE BBB; Stable (01-Oct-18)	1)CARE BBB; Stable (29-Jan-18)
2.	Fund-based-Short Term	ST	10.00	CARE A3	-	1)CARE A3 (28-Nov-19)	1)CARE A3+ (01-Oct-18)	1)CARE A3+ (29-Jan-18)
3.	Fund-based-Long Term	LT	54.00	CARE BBB-; Stable	-	1)CARE BBB-; Stable (28-Nov-19)	1)CARE BBB; Stable (01-Oct-18)	1)CARE BBB; Stable (29-Jan-18)
4.	Non-fund-based-Short Term	ST	30.00	CARE A3	-	1)CARE A3 (28-Nov-19)	1)CARE A3+ (01-Oct-18)	1)CARE A3+ (29-Jan-18)
5.	Fund-based/Non-fund-based-LT/ST	LT/ST	70.00	CARE BBB-; Stable / CARE A3	-	1)CARE BBB-; Stable / CARE A3 (28-Nov-19)	1)CARE BBB; Stable / CARE A3+ (01-Oct-18)	1)CARE BBB; Stable / CARE A3+ (29-Jan-18)

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities- Not Applicable
Annexure 4: Complexity level of various instruments rated for this Company

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based-Long Term	Simple
2.	Fund-based-Short Term	Simple
3.	Fund-based/Non-fund-based-LT/ST	Simple
4.	Non-fund-based-Short Term	Simple
5.	Term Loan-Long Term	Simple

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 clarification

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