

April 08, 2021

Shri Ramalinga Mills Private Limited: Ratings reaffirmed; outlook revised to Stable

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based -Term Loans	3.04	25.65	[ICRA]BB-(Stable); reaffirmed and outlook revised to Stable from Negative
Fund-based - Working Capital Facilities	112.00	85.00	[ICRA]BB-(Stable); reaffirmed and outlook revised to Stable from Negative
Non-fund Based-Working Capital Facilities	5.50	2.50	[ICRA]A4; reaffirmed
Unallocated limits	60.00	67.39	[ICRA]BB-(Stable); reaffirmed and outlook revised to Stable from Negative
Total	180.54	180.54	

*Instrument details are provided in Annexure-1

Rationale

The revision in the outlook reflects an improvement in revenues and earnings of Shri Ramalinga Mills Private Limited (SRML) witnessed in H2 FY2021 and a stable operating performance expected in the coming quarters, on the back of a recovery in demand witnessed in the spinning industry. SRML's revenues and earnings were adversely impacted in FY2020 due to weak export demand and tepid domestic consumption levels. The trend continued in the beginning of FY2021 as a fallout of the pandemic, which adversely impacted operations and demand conditions. Nevertheless, its overall revenues and earnings have improved steadily in the recent quarters, especially in Q3 and Q4 FY2021, driven by a recovery in yarn demand and favourable yarn prices. Despite an increase in cotton prices, contribution levels have expanded for spinners owing to a sharp increase in yarn prices. As a result, SRML's standalone cash profits are likely to be better than the FY2020 levels. Apart from better earnings, the liquidity position has also been supported by an improvement in the receivables position on the back of better demand and loans sanctioned under the Guaranteed Emergency Credit Line (GECL). Despite higher accretion to reserves, SRML's capitalisation levels remain stretched owing to thin profitability and high working capital requirements in the business. Key ratios including total debt to operating profits and interest coverage are likely to remain at modest levels of around 7.9 times and 0.9 times, respectively in FY2021. The ratings also remain constrained by SRML's weak financial profile at the consolidated level owing to continued operating losses incurred by its subsidiary. While its volumes are likely to remain steady in the coming quarters, sustainability of yarn prices at the current high levels remains to be seen and would be critical to support an improvement in the credit profile of the company. The ratings also consider SRML's established presence and healthy relationships enjoyed with key customers, extensive experience of the promoters in the cotton-spinning industry, its moderate scale of operations and a diversified count and sales mix.

Key rating drivers and their description

Credit strengths

Established presence in the spinning market – SRML is an established player in the domestic market, with presence of about three decades in the spinning segment, aiding in repeat orders from key customers. The company enjoys a moderate scale of operations. It is one of the largest spinners based out of Tamil Nadu and has a stable customer base, diversified across domestic and export markets, lending some stability to volumes.

Diversified product mix across count ranges lends some support to revenues – SRML has presence across count ranges, varying from 2s to 160s count. Within the broad range, the major portion of the revenue is generated from coarser counts of 20-40s and the finer counts of 80-100s. While coarser and open-ended counts are primarily utilised in the home textiles segment, the finer counts find application in the apparel segment and higher-end home textiles product categories. Its presence across diversified counts buffers the impact of demand slowdown in any particular end-user segment.

Credit challenges

Stretched financial profile – Despite an improvement in earnings from operations, SRML's credit metrics remain weak, constrained by thin earnings and high working capital intensity. Key ratios including total debt to operating profits and debt service coverage ratio are likely to be at around 7.9 times and 1.1 times, respectively in FY2021. SRML's financial profile is also constrained by the continued losses of its subsidiary and support extended to / receivables pending from its Group entities.

Low margins and return indicators – Despite an improvement in performance in the recent quarters, SRML's profitability levels continue to remain modest, limited by the high operating costs and moderate operating efficiency. The return on capital employed (RoCE) level of the company is likely to be at ~7% in FY2021. While the company has benefitted from the favourable yarn prices in H2 FY2021, any sharp moderation in realisations would adversely impact its contribution levels and profitability.

Liquidity position: Adequate

SRML's cash flows have improved in the recent months, supported by better earnings and an improvement in the receivables position, resulting in reduction in utilisation of working capital debt levels. The company had unutilised lines of credit to the tune of Rs.20 crore at the end of February 2021. In addition, its liquidity position would be supported by Rs.18.65 crore sanctioned by the banks as a part of the Guaranteed Emergency Credit Lines (GECL), which the company would avail in Q1 FY2022 to further reduce the working capital utilisation levels. The same are likely to support its liquidity position in the coming quarters, despite the high working capital requirements, some moderation in earnings expected (from the healthy levels seen in Q4 FY2021) and bank repayment obligations of around Rs.9.5 crore in FY2022.

Rating sensitivities

Positive factors – Sustained growth in revenues and earnings along with an improvement in working capital cycle, strengthening the liquidity position and credit metrics of the company, could result in an upgrade of ratings. Key metrics monitored would be DSCR increasing to 1.25 times on a sustained basis.

Negative factors – ICRA may downgrade the ratings, if there is a sustained pressure on SRML's operating performance or any elongation of its working capital cycle, which would adversely impact its credit metrics and liquidity position.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Indian Textile Industry - Spinning
Parent/Group Support	Not Applicable
Consolidation/Standalone	The ratings are based on the consolidated financial statements of SRML, and the details of the subsidiary consolidated are given in Annexure 2

About the company

Shri Ramalinga Mills Private Limited (SRML) is a part of the Sri Jayavilas Group (founded by Late Sathu T. Ramasamy Naicker), based in Aruppukottai, Tamil Nadu. Incorporated in 1951, SRML is a closely held and deemed public limited company. It has an installed capacity of 1,45,968 spindles and 3,312 rotors. SRML also has 15 windmills with a total power generation capacity of 15 MW. SRML has a subsidiary, Tamilnadu Jai Bharath Mills Limited, which functions as a job work unit for Aruppukottai Shri Ramalinga Spinners Private Limited.

Key financial indicators (audited)

	FY2019	FY2020
Operating Income (Rs. crore)	570.6	352.1
PAT (Rs. crore)	-21.1	-11.9
OPBDIT/OI (%)	5.0%	5.6%
ROCE (%)	4.6%	5.1%
Total Outside Liabilities/Tangible Net Worth (times)	3.6	3.1
Total Debt/OPBDIT (times)	10.8	11.5
Interest Coverage (times)	0.8	0.6
DSCR	0.6	0.7

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Source: Company, ICRA research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as on Dec 31,2020 (Rs. crore)	Date & Rating in	Date & Rating in FY2020	Date & Rating in FY2019	
					Apr 8, 2021		Mar 4, 2019	Apr 5, 2018
1	Fund-based -Term Loans	Long-term	25.65	7.00	[ICRA]BB-(Stable)	[ICRA]BB-(Negative)	[ICRA]BB-(Stable)	[ICRA]BB(Stable)
2	Fund-based - Working Capital Facilities	Long-term	85.00	-	[ICRA]BB-(Stable)	[ICRA]BB-(Negative)	[ICRA]BB-(Stable)	[ICRA]BB(Stable)
3	Non-fund Based- Working Capital Facilities	Short-term	2.50	-	[ICRA]A4	[ICRA]A4	[ICRA]A4	[ICRA]A4
4	Unallocated Limits	Long-term	67.39	-	[ICRA]BB-(Stable)	[ICRA]BB-(Negative)	[ICRA]BB-(Stable)	[ICRA]BB(Stable)

Source: Company

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website [click here](#)

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (RS Crore)	Current Rating and Outlook
NA	Working Capital Term Loan	FY2021	-	FY2026	18.65	[ICRA]BB-(Stable)
NA	CCECL (WCDL)	FY2021	-	FY2022	7.00	[ICRA]BB-(Stable)
NA	Cash Credit	-	-	-	85.00	[ICRA]BB-(Stable)
NA	Letter of Credit and Bank Guarantee	-	-	-	2.50	[ICRA]A4
NA	Unallocated Limits	-	-	-	67.39	[ICRA]BB-(Stable)

Source: Company

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Tamilnadu Jaibharath Mills Limited	61.66%	Full Consolidation

Source: Company

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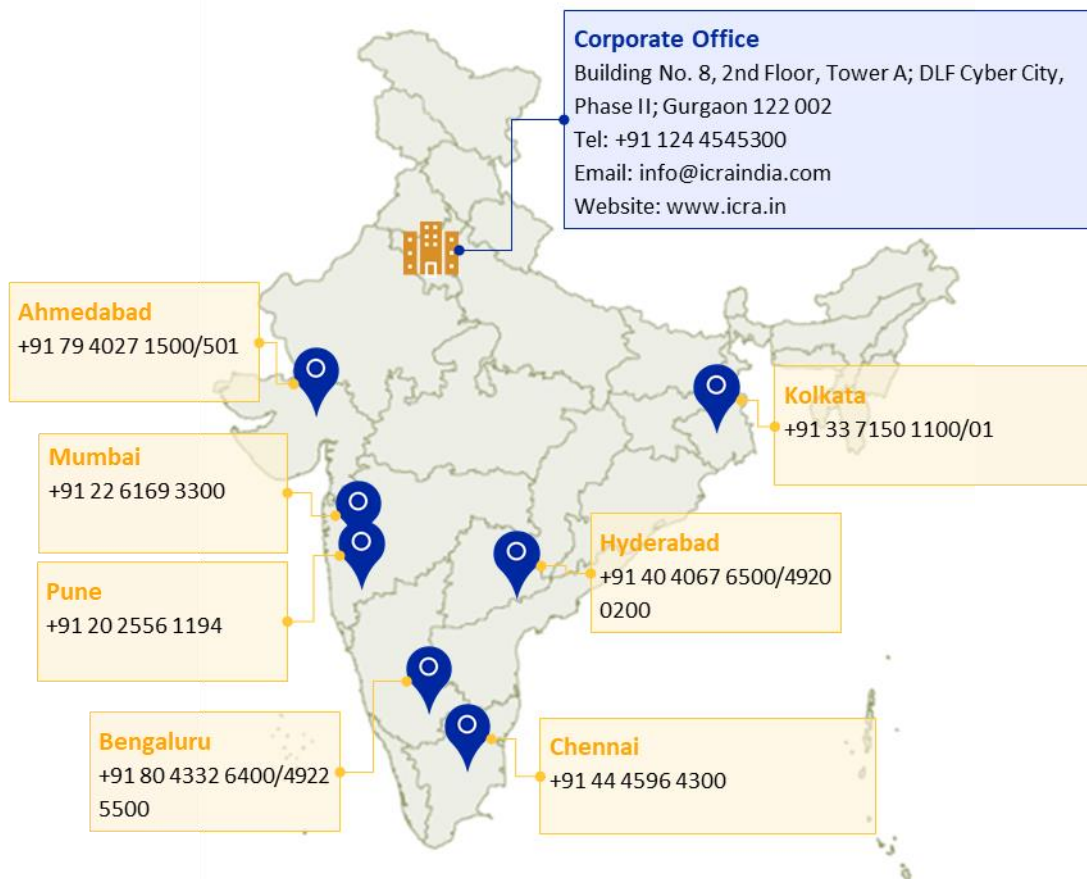


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