March 31, 2023

S.K.T.Textile Mills: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term – Fund based Term Loan	10.65	10.65	[ICRA]BBB- (Stable); Reaffirmed
Long term – Fund based CC	21.00	21.00	[ICRA]BBB- (Stable); Reaffirmed
Long term – Unallocated facility	1.72	1.72	[ICRA]BBB- (Stable); Reaffirmed
Short term – Non-fund-based facility	0.25	0.25	[ICRA]A3; Reaffirmed
Short term - Interchangeable	(10.00)	(10.00)	[ICRA]A3; Reaffirmed
Total	**33.62**	**33.62**	

**Instrument details are provided in Annexure-I*

Rationale

ICRA has taken a consolidated view of S.K.T.Textile Mills (SKT) and Vanitha Textiles (VT) (referred to as the Group) because of the common ownership and strong operational and financial linkages between these entities.

The rating reaffirmation reflects the long track record of the Group in the textile industry, its integrated presence across the textile value chain, a conservative capital structure, adequate credit metrics and liquidity position. In FY2022, the operating performance of the Group was supported by favourable demand conditions, when its revenues grew by 67% to around Rs. 180 crore, post modest revenues recorded in FY2021 owing to the pandemic. However, due to high raw material prices, the Group’s operating margins saw only marginal improvement to around 7% in FY2022. While the Group’s margins are likely to be constrained in the current year as well due to increasing raw material prices of cotton, as seen in H1 FY2023, its profitability remains supported by the integrated nature of operations and captive solar and windmills.

The Group’s financial profile is characterised by adequate coverage metrics and liquidity position, despite the debt-funded capital expenditure undertaken in FY2022. ICRA expects the DSCR to moderate to less than 1.2 times in FY2023, however, the other key credit metrics, including gearing and interest coverage, are likely to remain adequate at 0.4 times and 2.8 times, respectively, in FY2023. The ratings also consider the extensive experience of the promoters, the Group’s moderate scale of operation and its limited pricing flexibility in a competitive and fragmented cotton yarn industry, which exposes the earnings to fluctuations in raw material prices.

The Stable outlook reflects ICRA’s expectation that the Group will continue to benefit from its established presence in the textile industry with recurring orders from key customers and steady demand conditions in the coming quarters.

Key rating drivers and their description

Credit strengths

Long operational track record – The Group has been operational since 1979 as a manufacturer of grey fabric and mainly caters to the domestic market. Its key partners include Mr. Nachimuthoo, who has experience of over three decades in the textile value chain. The Group has both spinning and weaving facilities with an installed capacity of 31,200 spindles and 229 looms. The integrated business model improves its operational efficiency and supports margins. Further, the Group has 21 windmills with a combined capacity of 11 MW and rooftop solar power of 1.6 MW to meet its power requirements.

Adequate financial profile – The Group's financial profile is characterised by a conservative capital structure, with adequate coverage metrics and liquidity position, supported by steady earnings over the years. The Group's gearing and TOL/TNW are likely to remain healthy at 0.4 times and 0.5 times, respectively in FY2023. Although DSR is likely to moderate to less than 1.2 times, considering the debt-funded capex incurred in FY2022, the same is expected to improve from FY2023. Further, with steady earnings likely over the coming quarters, the Group's credit metrics and liquidity position are expected to remain adequate.

Credit challenges

Modest scale of operations and concentration risks – The Group's scale of operations remains relatively lower with revenues of Rs. 180 crore in FY2022, limiting the benefits from economies of scale and financial flexibility. Its revenues are also exposed to asset concentration and customer concentration risks, though the operating income generated from the top ten customers has reduced over the years. Further, being a partnership firm, it is vulnerable to capital withdrawals by the partners that could impact its net worth and hence the capital structure.

Limited pricing flexibility – The Group's earnings remain exposed to volatile raw material prices, as seen over the years, owing to the competitive and commoditised spinning and weaving industry, which restricts its pricing flexibility. Further, its margins are susceptible to foreign exchange rate fluctuations as the company derives around 25-30% of the total revenue from exports.

Liquidity position: Adequate

The Group's liquidity position is expected to remain adequate, supported by stable earnings and unutilised lines of credit. Cash buffer, including free cash reserves and unutilised working capital limits, together stood at around Rs. 9 crore as on February 28, 2023. The average utilisation of its fund-based limits over the last 12-month period ended in February 2023 stood at around 44%. The Group's debt repayment obligation is estimated at Rs. 3-6 crore over the next three years, and the Group is expected to generate accruals of more than Rs.6 crore. Besides, unutilised bank lines are likely to support the cash flows.

Rating sensitivities

Positive factors – ICRA may upgrade the ratings if there is a sustained growth in revenues and earnings, which would improve its liquidity position and coverage metrics.

Negative factors –The Group's ratings may be downgraded if there is sustained pressure on the operating performance or higher-than-expected debt-funded capex, which would adversely impact the credit metrics and the liquidity position. Specific credit metrics that could lead to ratings downgrade include DSCR of less than 1.2 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Financial Consolidation and Rating approach Rating methodology for Entities in the Indian textile Industry - Fabric Making Rating methodology for Entities in the Indian textile Industry - Spinning
Parent/Group support	Not Applicable
Consolidation/Standalone	ICRA has taken a consolidated view of S.K.T.Textile Mills and Vanitha Textiles because of the common ownership and strong operational linkages between these entities. The details of the consolidation are given in Annexure-2

About the company

SKT Textile Mills, established as a partnership firm in 2001, manufactures grey fabric. The firm's manufacturing facility is located in Palladam (Tamil Nadu) and operates with an installed capacity of 31,200 spindles and 87 looms. Mr. Nachimuthoo is the promoter of the firm and has an experience of more than three decades in the textile industry. The firm manufactures cotton yarn in the counts of 60s and 80s, which is entirely used for fabric manufacturing. The weaving activity is done in-house to some extent and is also outsourced to its sister concern, Vanitha Textiles, and to other nearby conversion units. The major portion of the firm's products is sold to domestic customers in Coimbatore and Mumbai. The firm also exports to the European Union (EU), Australia, China and South Korea. The firm has installed windmills in various locations in Tamil Nadu with a total capacity of 8.65 MW per annum.

Key financial indicators (audited)

Consolidated	FY2021	FY2022
Operating income	108.2	180.6
PAT	2.8	6.1
OPBDIT/OI	5.4%	7.0%
PAT/OI	2.6%	3.4%
Total outside liabilities/Tangible net worth (times)	0.4	0.6
Total debt/OPBDIT (times)	4.5	3.5
Interest coverage (times)	1.6	3.8

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2023)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as of Feb 28,2023 (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020
					Mar 31, 2023	Dec 30, 2021	Sep 29, 2020	-
1	Term Loan	Long Term	10.65	6.51	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)	-
2	Cash Credit	Long Term	21.00	-	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)	-
3	Unallocated facility	Long Term	1.72	-	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)	-
4	Non-fund-based facility	Short term	0.25	-	[ICRA]A3	[ICRA]A3	[ICRA]A3	-
5	Fund based facility - sublimit	Short term	(10.00)	-	[ICRA]A3	[ICRA]A3	[ICRA]A3	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long term – Fund based Term Loan	Simple
Long term – Fund based CC	Simple
Long term – Unallocated facility	NA
Short term – Non-fund-based facility	Simple
Short term - Interchangeable	Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash credit	NA	NA	NA	21.00	[ICRA]BBB-(Stable)
NA	Term loans	FY2020	NA	FY2026	10.65	[ICRA]BBB-(Stable)
NA	Unallocated facility	NA	NA	NA	1.72	[ICRA]BBB-(Stable)
NA	Non-fund-based facility	NA	NA	NA	0.25	[ICRA]A3
NA	Fund-based facility (sub-limit)	NA	NA	NA	(10.00)	[ICRA]A3

Source: Company

Please click here to view details of lender-wise facilities rated by ICRA.

Annexure II: List of entities considered for consolidated analysis

Company Name	LTHL Ownership	Consolidation Approach
S.K.T.Textile Mills	-	Full Consolidation
Vanitha Textiles	-	Full Consolidation

Source: Annual report

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About ICRA Limited:

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