September 29, 2020

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-1*

Rationale

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

The ratings factor in the vast experience of the partners in the textile industry spanning over three decades, which has supported its business growth over the years. The ratings consider the Group's comfortable financial profile characterised by healthy capital structure, with gearing and TOL/TNW at 0.4 times and 0.6 times as on March 31, 2020, and moderate coverage indicators with interest coverage and DSCR at 3.2 times and 1.6 times in FY2020.

However, the ratings are constrained by the Group's moderate scale of operations, coupled with the high customer concentration risk. This restricts its financial and operational flexibility in the highly fragmented textile industry, which limits the scope of margin expansion. It also factors in the weak demand outlook for FY2021 (because of the economic slowdown and the lockdown imposed to contain the Covid-19 pandemic), which is likely to impact the Group's revenue and profitability in the near term. The ratings are also constrained by the capital withdrawal risks associated with partnership firms.

The Stable outlook on the ratings reflect ICRA's opinion that the Group will continue to benefit from the extensive experience of its partners in the textile industry.

Key rating drivers and their description

Credit strengths

Promoter's experience of over three decades – The Group has been operational since 1979 as a manufacturer of greige fabric. The Group mainly caters to the domestic market. Its key partners include Mr. Nachimuthoo, who has an experience of over three decades in the textile value chain.

Integrated manufacturing facility in textile value chain – The Group has both spinning and weaving facilities with an installed capacity of 31,200 spindles and 209 looms. The integrated business model improves its operational efficiency and thereby supports margins. Moreover, the Group has 21 windmills with a combined capacity of 11 MW to meet its power requirements.

Healthy capital structure and debt coverage metrics – The Group has maintained a healthy capital structure, over the years, supported by accretion to reserve and low withdrawals by the partners. The Group's gearing, TD/OPBITDA and TOL/TNW were healthy at 0.4 times, 2.5 times and 0.6 times in as on March 31, 2020 improved from 0.6 times, 2.9 times and 0.8 times as on March 31, 2019. The coverage metrics remained healthy with interest coverage and DSCR at 3.2 times and 1.6 times in FY2020.

Credit challenges

Decline in revenue in FY2020; OI expected to remain under pressure in FY2021 – The Group's revenue declined by ~17% in FY2020 due to sluggish demand. It started selling staple fibre-based fabric under another firm from FY2020, resulting in loss of sale for the rated entities. The continuing Covid-19 pandemic is expected to adversely impact the Group's order inflow, impacting its near-term revenue growth. Further, the operating margins are likely to moderate in FY2021 owing to the anticipated reduction in revenues and lower absorption of overhead cost. Nonetheless, its liquidity and debt protection metrics are expected to be adequate on account of the low debt level.

Moderate scale of operations with high customer concentration – The Group's scale of operations remains moderate with Rs. 133.2 crore of revenue in FY2020, limiting the benefits from economies of scale and financial flexibility. The top five customers contributed to about 38% of the total sales in FY2020, indicating high customer concentration risk. High dependence on a few customers limits its bargaining power and pricing flexibility, and increases the susceptibility to revenue volatility in case of any customer loss. 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.

Highly fragmented industry; margins susceptible to fluctuation in market prices of cotton and yarn – The spinning and weaving industry is highly fragmented and competitive with the presence of many organised and unorganised players. The Group's margins remain vulnerable to fluctuation in the key raw material prices, namely cotton and yarn. Further, with 11% of total revenue derived from exports, the margins are susceptible to foreign exchange rate fluctuations.

Liquidity position: Adequate

The Group has external term loans of Rs. 13.8 crore as on March 31, 2020, of which Rs. 4.9 crore (Rs. 2.4 crore in SKT and Rs. 2.5 crore in VT) is scheduled to be repaid in FY2021. It has moderate buffer in working capital limits with average monthly utilisation at 61% of limits (67% for SKT and 43% for VT) and 79% of DP (82% for SKT and 69% for VT) over the 12-month period that ended in July 2020. Nonetheless, it is expected to have **adequate** liquidity supported by Covid-19 relief loans of Rs. 5.2 crore that was availed in June 2020. It has also received TUF capital subsidy of Rs. 1.7 crore in the current fiscal.

Rating sensitivities

Positive triggers – ICRA could upgrade the Group's ratings if it is able to improve its scale of operation with healthy profitability while improving its liquidity profile. Specific credit metrics that may lead to a rating upgrade include DSCR improving to more than 1.6 times on a sustained basis.

Negative triggers – Negative pressure on the Group's ratings could arise if the liquidity position weakens or if there is a decline in its profitability. Specific credit metrics that could lead to a rating downgrade include interest coverage less than 2.8 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 Textiles Industry – Fabric Making Rating Methodology for Entities in the Indian Textiles Industry – Spinning
Parent/Group Support	NA
Consolidation/Standalone	ICRA has now taken a consolidated view of S.K.T. Textile Mills and Vanitha Textiles (hereafter referred to as the Group) on account of common ownership and strong operational linkages between these entities. The details of the consolidation is given in Annexure-2.

About the company

S.K.T. Textile Mills, established as a partnership firm in 2001, manufactures greige fabric. The firm's manufacturing facility is located in Palladam (Tamil Nadu) and operates with an installed capacity of 31,200 spindles and 87 automatic shuttleless looms. Further, the firm has installed wind mills in various locations in Tamil Nadu with a total capacity of 8.65 MW. It has a Group concern, Vanitha Textiles, which is also involved in the manufacturing of greige fabric with an installed capacity of 122 looms (including 40 air-jet looms). It has an installed windmill capacity of 2.35 MW used for captive consumption.

Key financial indicators (audited) – Consolidated

	FY2019	FY2020
Operating Income (Rs. crore)	160.1	133.2
PAT (Rs. crore)	7.6	5.9
OPBDIT/OI (%)	10.0%	9.9%
PAT/OI (%)	4.8%	4.5%
Total Outside Liabilities/Tangible Net Worth (times)	0.8	0.6
Total Debt/OPBDIT (times)	2.9	2.5
Interest Coverage (times)	3.4	3.2

Key financial indicators (audited) – Standalone

	FY2019	FY2020
Operating Income (Rs. crore)	118.2	92.3
PAT (Rs. crore)	3.7	2.6
OPBDIT/OI (%)	8.7%	8.7%
PAT/OI (%)	3.1%	2.8%
Total Outside Liabilities/Tangible Net Worth (times)	0.9	0.7
Total Debt/OPBDIT (times)	3.2	3.0
Interest Coverage (times)	3.2	3.3

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2021)				Rating History for the Past 3 Years		
		Type	Amount Rated	Amount Outstanding*	Rating	FY2020	FY2019	FY2018
					29-Sep-2020	-	21-Mar-2019	01-Mar-2018
1	Term Loan	Long Term	10.65	9.43	[ICRA]BBB- (Stable)	-	[ICRA]BBB- (Stable)	[ICRA]BB+ (Stable)
2	Cash Credit	Long Term	21.00	-	[ICRA]BBB- (Stable)	-	[ICRA]BBB- (Stable	[ICRA]BB+ (Stable)
3	Unallocated facility	Long Term	1.72	-	[ICRA]BBB- (Stable)	-	[ICRA]BBB- (Stable)	-
4	Non-fund based facility	Short term	0.25	-	[ICRA]A3	-	[ICRA]A3	[ICRA]A4+
5	Fund based facility - sublimit	Short term	(10.00)	-	[ICRA]A3	-	[ICRA]A3	[ICRA]A4+

*Amount in Rs. crore; * outstanding as on March 31, 2020*

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 www.icra.in

Annexure-1: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loan 1	Mar 2016	-	Aug 2021	0.60	[ICRA]BBB- (Stable)
NA	Term Loan 2	Mar 2015	-	Jul 2023	2.36	[ICRA]BBB- (Stable)
NA	Term Loan 3	Feb 2016	-	Feb 2021	2.04	[ICRA]BBB- (Stable)
NA	Term Loan 4	Mar 2017	-	Mar 2022	1.83	[ICRA]BBB- (Stable)
NA	Term Loan 5	Jun 2020		Jun 2024	3.82	[ICRA]BBB- (Stable)
NA	Cash Credit	-	-	-	21.00	[ICRA]BBB- (Stable)
NA	Unallocated facility	-	-	-	1.72	[ICRA]BBB- (Stable)
NA	Non-fund based facility	-	-	-	0.25	[ICRA]A3
NA	Fund-based facility (sub-limit)	-	-	-	(10.00)*	[ICRA]A3

*Source: S.K.T. Textile Mills; * sub-limit of cash credit facility*

Annexure-2: List of entities considered for consolidated analysis

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

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About ICRA Limited:

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