

November 01, 2017

## Shree Sakthi Vinayagar Weaves Private Limited

### Summary of rated instruments

Instrument*	Rated Amount (Rs. crore)	Rating Action
Fund-based – Cash Credit	4.90	[ICRA]B+ (Stable); assigned
Fund-based – Term Loan	1.50	[ICRA]B+ (Stable); assigned
Fund-based – Term Loan^	(5.50)	[ICRA]B+ (Stable); assigned
Unallocated limits	7.50	[ICRA]B+ (Stable); assigned
Non-fund based – Bank guarantee	0.77	[ICRA]A4; assigned
Non-fund based – Letter of Credit	7.50	[ICRA]A4; assigned
<b>Total</b>	<b>22.17</b>	

\*Instrument details are provided in Annexure-1

^Sub-limit of Letter of Credit

### Rating action

ICRA has assigned the long-term rating of [ICRA]B+ (pronounced ICRA B plus)<sup>1</sup> to the Rs. 6.40-crore<sup>2</sup> fund-based facilities and to the Rs 7.50-crore unallocated limits of Shree Sakthi Vinayagar Weaves Private Limited (SSVWPL). The outlook on the long-term rating is 'Stable'. ICRA has also assigned the short-term rating of [ICRA]A4 (pronounced ICRA A four) to the Rs 8.27-crore non-fund based facilities of SSVWPL.

### Rationale

The assigned ratings take into account the long track record of the promoters in the weaving business spanning three decades coupled with the favorable location of the factory in the textile belt of Tamil Nadu with easy access to raw materials, job workers and customers. ICRA also takes note of the expected increase in the scale of operations and margins owing to the additional capital expenditure on purchase of new auto looms planned. However, the ratings are constrained by the current small scale of operations limiting economies of scale, high competition in the textile industry, thin margins owing to volatile raw material prices, and high gearing of 3.2 times as of March 31, 2017. The ratings are further constrained by the expected weakening in the debt-coverage metrics owing to the significant debt-funded capital expenditure planned where the repayment on these capex loans would be commencing from FY2019 onwards.

<sup>1</sup> For complete rating scale and definitions, please refer to ICRA's website [www.icra.in](http://www.icra.in) or other ICRA Rating Publications

<sup>2</sup> 100 lakh = 1 crore = 10 million

## Key rating drivers

### Credit strengths

- **Experience of the promoter in the textile industry for nearly three decades** – SSVWPL was established initially in 1970 as a family-run business and later was incorporated as a private limited company in 2006. The promoters have more than three decades of experience in the textiles industry. The company manufactures grey fabric and has grown in terms of both volumes and revenue over the years with a capacity of 310 looms and a turnover of Rs 41.18 crore during FY2017. The company's current capacity utilisation is at around 90% where it can manufacture around 74.40 lac meters of grey fabric with the current loom capacity of 310 looms. This apart, the company also outsources manufacture of grey fabric to job workers which adds to its overall sales volumes.
- **Favourably located in the textile belt of Tamil Nadu, which provides easy access to raw material, labour, processing facilities and sales agents** - The Company's facility is located in the textile belt of Tamil Nadu in Erode which houses several spinning mills and fabric manufacturers. Viscose, cotton and flux yarn are the primary raw materials of the company which are purchased majorly from Mothi Spinnies Private Limited, a group entity located in Erode. The company sells its output to fabric processors and traders, within Tamil Nadu.
- **Enhancement in the production capacity to lead to improved scale** - The company is in the process of enhancing its production capacity by adding 24 auto looms to its existing loom capacity of 310 looms by January 2018. When a single power loom can manufacture only around 80 meters of fabric per day, an auto loom can manufacture nearly 600 meters of fabric per day. This is expected to result in increase in the scale of operations where the production capacity will increase by 43.00 lac meters per annum from the current levels of 74.40 lac meters per annum. Improved scale coupled with reduction in job work expenses on account of increased in-house manufacturing capacity, is expected to result in improved operating margins.

### Credit weaknesses

- **Small scale of operations limiting economies of scale** – With a loom capacity of 310 looms having an average vintage of 15 years, SSVWPL is a small player in the textile industry with its presence in the weaving segment manufacturing grey fabric. With a constant loom capacity in the last five fiscals, the revenue of the company grew at a low CAGR of 3.5% during FY2013-17. Though the company is in the process of increasing its loom capacity in FY2018, the scale of the company is expected to remain small.
- **Margins are thin and are susceptible to fluctuation in raw material prices** - The margin in the weaving business is dependent primarily on the yarn purchase price where any steep fluctuation in yarn price which mirrors the cotton price, will have a direct impact on the company's margins. While the yarn prices are volatile, realisation on sale of fabric is relatively more stable, exposing the company to adverse movement in prices.
- **High gearing and moderate coverage indicators** - As the company's accretion to reserves is very thin, the gearing of the company increased year-on-year owing to increase in working capital debt. Further, owing to the debt-funded capital expenditure towards enhancement of loom capacity, the debt is expected to increase by additional Rs 7.0 crore. This is expected to weaken the debt-coverage metrics owing to increase in interest charges and repayment obligations commencing from FY2019 onwards.

- **Intense competition in a highly fragmented industry structure, amidst low product differentiation, restricts pricing flexibility** - Weaving mills convert cotton, manmade, or blended yarns into woven fabrics. Unlike the handloom sector, the power loom sector uses power-driven shuttle looms; and a typical power loom unit has 10 to 50 looms. Thus, India's weaving sector is highly fragmented, small-scale, and labour-intensive. Further, with excess capacities available in weaving and processing sector, volatile raw material prices and limited inventory carrying capacity, the pricing power of weaving units is low resulting in weak profitability measures.

**Analytical approach:** For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

**Links to applicable criteria:**

[Corporate Credit Rating Methodology](#)

[Indian textile industry - Spinning](#)

**About the company:**

Incorporated in 2006, Shree Sakthi Vinayagar Weaves Private Limited ("SSVWPL" / "the Company") manufactures grey fabric by weaving viscose yarn and cotton yarn. The company's manufacturing facility is located in Pallipalayam, Erode in Tamil Nadu and has a loom capacity of 310 looms as of FY2017. SSVWPL was established in the year 1970 as a family business and was later incorporated as a private limited company in 2006. It continues to be a family-run business, managed by Mr. Jayaprakash who is also one of the directors in Mothi Spinners Private Limited (*rated at [ICRA]BBB+(Stable)/[ICRA]A2 by ICRA*).

In FY2017, on a provisional basis, the company reported a net profit of Rs. 0.15 crore on an operating income of Rs. 41.18 crore, as compared to a net profit of Rs. 0.12 crore on an operating income of Rs. 32.44 crore in the previous year.

**Key financial indicators**

	<b>FY2016</b>	<b>FY2017<sup>^</sup></b>
Operating Income (Rs. crore)	32.44	41.18
PAT (Rs. crore)	0.12	0.15
OPBDITA/ OI (%)	2.97%	2.43%
RoCE (%)	12.83%	11.32%
Total Debt/ TNW (times)	3.76	3.19
Total Debt/ OPBDITA (times)	6.59	5.86
Interest coverage (times)	1.36	1.39
NWC/ OI (%)	17.11%	12.97%

*OI: Operating Income; PAT: Profit after Tax; OPBDITA: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: Return on Capital Employed; NWC: Net Working Capital; TNW: Tangible Net Worth*

*<sup>^</sup> Provisional financial statements*

**Status of non-cooperation with previous CRA:** Not applicable

**Any other information:** Not applicable

**Rating history for last three years:  
Table:**

S. No.	Instrument	Current Rating (FY2018)			Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. Crore)	Date & Rating	Date & Rating in FY2017	Date & Rating in FY2016	Date & Rating in FY2015
				<b>Nov, 2017</b>	-	-	-
1	Cash Credit	Long Term	4.90	[ICRA]B+(Stable)	-	-	-
2	Term loan	Long Term	1.50		-	-	-
3	Term Loan^	Long Term	(5.50)^		-	-	-
4	Unallocated limits	Long Term	7.50		-	-	-
5	Bank Guarantee	Short Term	0.77	[ICRA]A4	-	-	-
6	Letter of Credit	Short Term	7.50		-	-	-

^sub-limit of Letter of Credit

**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](http://www.icra.in)

**Annexure-1**  
**Instrument Details**

ISIN No	Instrument	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
-	Cash Credit	-	-	-	4.90	[ICRA]B+ (Stable)
-	Term Loan	-	-	January 2025	1.50	[ICRA]B+ (Stable)
-	Term Loan	-	-	July 2024	(5.50)^	[ICRA]B+ (Stable)
-	Unallocated limits	-	-	-	7.50	[ICRA]B+ (Stable)
-	Bank Guarantee	-	-	-	0.77	[ICRA]A4
-	Letter of Credit	-	-	-	7.50	[ICRA]A4

Source: the company; ^sub-limit of Letter of Credit

## Contact Details

### Analyst Contacts

**R Srinivasan**

+91 44 4596 4315

[srinivasan.r@icraindia.com](mailto:srinivasan.r@icraindia.com)

**Aishwaryaa A**

+91 44 4596 4320

[aishwaryaa.a@icraindia.com](mailto:aishwaryaa.a@icraindia.com)

### Relationship Contact

**Jayanta Chatterjee**

+91 80 4332 6401

[jayantac@icraindia.com](mailto:jayantac@icraindia.com)

About ICRA Limited:

**ICRA Limited** was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit [www.icra.in](http://www.icra.in)

© Copyright, 2017, ICRA Limited. All Rights Reserved

Contents may be used freely with due acknowledgement to ICRA

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website [www.icra.in](http://www.icra.in) or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.

**Registered Office****ICRA Limited**

1105, Kailash Building, 11th Floor, 26, Kasturba Gandhi Marg, New Delhi 110001  
Tel: +91-11-23357940-50, Fax: +91-11-23357014

**Corporate Office****Mr. Vivek Mathur**

Mobile: +91 9871221122

Email: [vivek@icraindia.com](mailto:vivek@icraindia.com)

Building No. 8, 2nd Floor, Tower A, DLF Cyber City, Phase II, Gurgaon 122002  
Ph: +91-124-4545310 (D), 4545300 / 4545800 (B) Fax: +91- 124-4050424

**Mumbai****Mr. L. Shivakumar**

Mobile: +91 9821086490

Email: [shivakumar@icraindia.com](mailto:shivakumar@icraindia.com)

3rd Floor, Electric Mansion  
Appasaheb Marathe Marg, Prabhadevi  
Mumbai—400025,  
Board : +91-22-61796300; Fax: +91-22-24331390

**Kolkata****Mr. Jayanta Roy**

Mobile: +91 9903394664

Email: [jayanta@icraindia.com](mailto:jayanta@icraindia.com)

A-10 & 11, 3rd Floor, FMC Fortuna  
234/3A, A.J.C. Bose Road  
Kolkata—700020  
Tel +91-33-22876617/8839 22800008/22831411,  
Fax +91-33-22870728

**Chennai****Mr. Jayanta Chatterjee**

Mobile: +91 9845022459

Email: [jayantac@icraindia.com](mailto:jayantac@icraindia.com)

5th Floor, Karumuttu Centre  
634 Anna Salai, Nandanam  
Chennai—600035  
Tel: +91-44-45964300; Fax: +91-44 24343663

**Bangalore****Mr. Jayanta Chatterjee**

Mobile: +91 9845022459

Email: [jayantac@icraindia.com](mailto:jayantac@icraindia.com)

'The Millenia'  
Tower B, Unit No. 1004, 10th Floor, Level 2 12-14, 1 & 2,  
Murphy Road, Bangalore 560 008  
Tel: +91-80-43326400; Fax: +91-80-43326409

**Ahmedabad****Mr. L. Shivakumar**

Mobile: +91 9821086490

Email: [shivakumar@icraindia.com](mailto:shivakumar@icraindia.com)

907 & 908 Sakar -II, Ellisbridge,  
Ahmedabad- 380006  
Tel: +91-79-26585049, 26585494, 26584924; Fax:  
+91-79-25569231

**Pune****Mr. L. Shivakumar**

Mobile: +91 9821086490

Email: [shivakumar@icraindia.com](mailto:shivakumar@icraindia.com)

5A, 5th Floor, Symphony, S.No. 210, CTS 3202, Range  
Hills Road, Shivajinagar, Pune-411 020  
Tel: + 91-20-25561194-25560196; Fax: +91-20-  
25561231

**Hyderabad****Mr. Jayanta Chatterjee**

Mobile: +91 9845022459

Email: [jayantac@icraindia.com](mailto:jayantac@icraindia.com)

4th Floor, Shobhan, 6-3-927/A&B. Somajiguda, Raj  
Bhavan Road, Hyderabad—500083  
Tel:- +91-40-40676500