



Press Release

Shri Santhosh Meenakshi Textiles Private Limited

August 30, 2024

Ratings

Instrument / Facility	Amount (Rs. crore)	Current Ratings	Previous Ratings	Rating Action	Complexity Indicator
Long Term Facilities	76.85	IVR BBB/Stable (IVR Triple B with Stable outlook)	-	Assigned	Simple
Short Term Facilities	44.80	IVR A3+ (IVR A Three Plus)	-	Assigned	Simple
Proposed Long Term/ Short Term Bank Facilities	8.35	IVR BBB/Stable; IVR A3+ (IVR Triple B with Stable outlook and IVR A Three Plus)	-	Assigned	Simple
Total	130.00 (Rupees One hundred and thirty crore only)				

Details of Facilities/Instruments are in Annexure 1. Facility wise lender details are at Annexure 2. Detailed explanation of covenants is at Annexure 3.

Detailed Rationale

Infomerics Ratings has assigned its rating to the Bank facilities of Shri Santhosh Meenakshi Textiles Private Limited (SSMTPL) which derive strength from established market position in the cotton yarn industry supported by the extensive experience of the promoter, moderate working capital management and debt protection metrics, and comfortable financial risk profile. However, these rating strengths remain constrained by moderate scale of operations, inherent volatility associated with raw material prices and its impact on profitability, and highly fragmented, competitive, and cyclical nature of industry.

The outlook is stable in view of extensive experience of the promoters and established relationship with the clients.



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Key Rating Sensitivities:

Upward Factors

- Significant and sustained growth in scale of business with improvement in profitability metrics thereby leading to overall improvement in cash accruals and liquidity.

Downward Factors

- Dip in operating income and/or profitability thereby impacting the debt coverage indicators and/or any further deterioration in the financial risk profile.
- Significant rise in working capital intensity or unplanned capex leading to deterioration in the liquidity position.

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

Established market position in the cotton yarn industry supported by the extensive experience of the promoter

Mr. C. Udhayasankar's two decades of entrepreneurial experience have established a solid market position for the company and fostered strong relationships with customers and suppliers, which are expected to continue benefiting the business.

Moderate working capital management and debt protection metrics:

The operating cycle of the company stood moderate at 66 days in FY23(1st April 2022 to 31st March 2023) and increased from 57 days in FY22(1st April 2021 to 31st March 2022). In FY24(Prov.) the operating cycle has improved to 56 days mainly due to improvement in debtor and creditors days. Further, given the moderate operating profitability, debt protection metrics are comfortable as reflected by the interest coverage ratio (ICR) 8.82 times and DSCR of 3.98x in FY23. With increase in long term borrowings of the company the ICR and DSCR reduced but remained moderate at 3.26 times and 1.35X in FY24(Prov.) respectively.



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Comfortable financial risk profile

The tangible net worth of the company stood at Rs.109.68 crore. In FY24(P), the TNW grew to Rs.119.71 crore due to accretion of profits. Overall gearing stood at 1.07x and 0.42x as of March 31, 2023, and 2022 respectively. Total Debt/EBITDA deteriorated to 3.84x as on March 31, 2023, from 1.01x as on March 31, 2022, on account of increase in long term borrowings of the company. Gearing and coverage metrics deteriorated due to the increase in debt portion towards the capex incurred in FY23. In FY24(Prov.) overall gearing ratio and Total Debt/EBITDA improved to 0.91x and 3.28x respectively.

Key Rating Weaknesses

Moderate scale of operations:

The company has reported a Total Operating Income (TOI) of Rs. 210.74 crore in FY23 against Rs. 235.35 crore in FY22, down by 10.46% on account of exceptional growth in FY22 and in FY23 it has come to its normal sales. In FY24(Prov.) the TOI has increased by 22% to Rs.257.06 crore. The PAT margin of the company grew to 18.06% in FY23 from 8.14% in FY22 due to profit from exceptional items. If the same is not considered PAT margin would work out to 8.35% in FY23. In FY24(P) the PAT Margin reduced to 3.84% as a result of higher interest expenses from new long-term borrowings used to finance capital expenditures.

Inherent volatility associated with raw material prices and its impact on profitability:

The company's profitability is susceptible to the movement in the prices of raw cotton which is the key raw material for production of cotton yarn. The prices of raw cotton are volatile in nature and depend upon factors such as area under production, yield, vagaries of monsoon, international demand supply scenario, inventory carry forward from the previous year and export quota along with minimum support price (MSP) decided by the government. Prices of raw cotton have been volatile over the last couple of years, which translates into risk of inventory losses for the industry players. Also, the majority of revenue comes from the international market, any sharp fluctuation in forex rates affects realizations and accruals.



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Highly fragmented, competitive, and cyclical nature of industry.

The Indian textile industry consists of large, organized players who contribute to 75 per cent of total installed capacity and the remaining 25 per cent is contributed by unorganized segment. SSMTPL is a relatively medium player in this space, thereby lacking the benefits of economies of scale. The intense competition in the highly fragmented textile industry also restricts its ability to completely pass on volatility in input cost to its customers. The company is in the textile industry pre-dominantly dependent on cotton. Additionally, it is susceptible to factors like weather changes and changes in government policies aimed at the overall development of the textile industry. Furthermore, companies in this sector must comply with strict pollution control regulations imposed by regulatory authorities, and failure to do so could negatively affect their operations.

Analytical Approach: Standalone

Applicable Criteria:

[Rating Methodology for Manufacturing Companies.](#)

[Financial Ratios & Interpretation \(Non-Financial Sector\).](#)

[Criteria for assigning Rating outlook.](#)

[Policy on Default Recognition](#)

[Complexity Level of Rated Instruments/Facilities](#)

Liquidity –Adequate

The liquidity of the company is adequate. The company expects sufficient cushion in its cash accruals vis-à-vis debt repayments in the next 3 years. The company has an unencumbered cash & bank balances of Rs.0.13 crore as on March 31, 2024(P), and Rs. 11.81 crore as on March 31, 2023. The average working capital utilization has been about 85% during the 12 months period ended June 2024.

About the Company

Shri Santhosh Meenakshi Textiles Private Limited is a company incorporated on 01 September 2005 by Mr. C. Udhayasankar. It is classified as private limited company with its registered office at Sethuram, Coimbatore, Tamil Nadu. It is involved in spinning, weaving, finishing of textiles and manufacture and export of readymade knitted garments. It has three



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state-of the-art manufacturing facilities at Tirupur having installed capacity of 41,500 spindles per day and 21000 garments per day.

Financials (Standalone):

For the year ended/ As on*	(Rs. crore)	
	31-03-2023	31-03-2024
	Audited	Provisional
Total Operating Income	210.74	257.06
EBITDA	30.50	33.28
PAT	38.85	10.03
Total Debt	117.17	109.11
Tangible Net Worth	109.68	119.71
EBITDA Margin (%)	14.47	12.95
PAT Margin (%)	18.06	3.84
Overall Gearing Ratio (x)	1.07	0.91
Interest Coverage (x)	8.82	3.26

* Classification as per Infomerics' standards.

Status of non-cooperation with previous CRA: Nil

Any other information: Nil

Rating History for last three years:

Sr. No.	Name of Security/Facilities	Current Ratings (2024-25)			Rating History for the past 3 years		
		Type (Long Term/Short Term)	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2023-24	Date(s) & Rating(s) assigned in 2022-23	Date(s) & Rating(s) assigned in 2021-22
1.	Long Term Bank Facilities	Long Term	76.85	IVR BBB/Stable	-	-	-
2.	Short Term Bank Facilities	Short Term	44.80	IVR A3+	-	-	-
3.	Long Term /Short Term Bank Facilities	Long Term /Short Term	8.35	IVR BBB/Stable; IVR A3+	-	-	-

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About Infomerics:

Infomerics Valuation and Rating Private Ltd (Infomerics) was founded in the year 1986 by a team of highly experienced finance professionals for research and risk evaluation. Infomerics commenced its activities as External Credit Assessment Institution after obtaining registration from Securities Exchange Board of India (SEBI) and accreditation from Reserve Bank of India (RBI).

Adhering to best international practices and maintaining high degree of ethics, the team of analysts at Infomerics deliver quality credit ratings. Infomerics evaluates wide range of debt instruments which helps corporates access to financial markets and provides investors credit ratings backed by in-depth research. The transparent, robust, and credible ratings have gained the confidence of investors and the banks.

Infomerics has a pan India presence with Head Office in Delhi and Corporate Office at Mumbai, with branches in major cities and representatives in several locations.

Infomerics also has international presence with credit rating operations in Nepal through its JV subsidiary.

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Annexure 1: Instrument/Facility Details

Name of Facility/ /Security	ISIN	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Term Loan	-	-	-	August 2028	61.30	IVR BBB/Stable
Cash Credit	-	-	-	-	15.00	IVR BBB/Stable
GECL	-	-	-	February 2025	0.55	IVR BBB/Stable
Packing Credit	-	-	-	-	25.80	IVR A3+
FBD/EBR	-	-	-	-	10.00	IVR A3+
SBL	-	-	-	-	6.00	IVR A3+
CEL	-	-	-	-	2.50	IVR A3+
Bank Guarantee	-	-	-	-	0.50	IVR A3+
Proposed	-	-	-	-	8.35	IVR BBB/Stable; IVR A3+

Annexure 2: Facility wise lender details

<https://www.infomerics.com/admin/prfiles/len-ShriSanthosh-aug24.pdf>

Annexure 3: Detailed explanation of covenants of the rated Security/facilities: Not Applicable

Annexure 4: List of companies considered for consolidated/Combined analysis: Not Applicable

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.