



## Press Release

**Shri Dhanalakshmi Spinntex Privat Limited**

**September 22, 2023**

### Ratings

Facilities	Amount (Rs. crore)	Ratings	Rating Action	Complexity Indicator
Long Term Bank Facilities – Cash Credit	18.00	IVR BBB-/Stable	Assigned	Simple
Long Term Bank Facilities – Term Loans	54.05	IVR BBB-/Stable	Assigned	Simple
Long Term Bank Facilities – GECL	18.24	IVR BBB-/Stable	Assigned	Simple
Short Term Bank Facilities – Letter of Credit	9.00	IVR A3	Assigned	Simple
<b>Total</b>	<b>99.29</b>	<b>Rupees Ninety-Nine Crore and Twenty- Nine Lakh Only</b>		

**Details of Facilities are in Annexure 1**

### Detailed Rationale

The rating assigned to the above-mentioned bank facilities of Shri Dhanalakshmi Spinntex Privat Limited continues to derive strength from its experienced promoters and management team, moderate scale of operations, moderate financial risk profile, healthy revenue visibility due to long term PPA with customers. However, risks associated with volatility in the raw material prices., working capital intensive nature of business, cyclicity in the textile industry and vulnerability of cash flows to variation in weather conditions are some of the rating constraints.

### 1. Key Rating Sensitivities

#### Upward Factors

- Sustained increase in scale of operation of more than 20% with improvement in cash accruals.
- Improvement in profitability with EBITDA margin above 20% on a sustained basis.
- Improvement in capital structure with reduction in TOL/TNW below 1x.



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### **Downward Factors**

- Dip in operating income and/or profitability impacting the debt coverage indicators on a sustained basis.
- Withdrawal of subordinated unsecured loan (treated as quasi-equity) amounting to Rs.10.40 crore either partially or fully, leading to moderation in the capital structure.
- Any un-envisaged incremental debt funded capital expenditure leading to a deterioration in its overall gearing ratio.
- Discontinuation of PPA resulting in cash flow deterioration.

### **List of Key Rating Drivers with Detailed Description**

#### **Key Rating Strengths**

##### **Extensive experience of the promoters**

The company is promoted by Mr. C. Natarajan and Mrs. Leelavathy Natarajan. Mr. C Natarajan is the managing director of the company having experience of more than 30 years in the textile industry and more than 10 years' experience in windmill operations. Mrs. Leelavathy Natarajan is another director of the company having experience of more than 20 years in the textile industry and more than 10 years' experience in windmill operations.

##### **Moderate scale of operations**

SDSPL booked the revenue of Rs. 168.41 crore in FY23 Prov. (Rs. 166.44 crore in FY22) an marginal increase of ~1.41% when compared with FY22 revenue. Further, SDSPL's Gross cash accruals stood at Rs. 19.50 crore in FY23 Prov. (Rs. 18.42 crore in FY22) due to increase in PAT absolute. Currently, SDSPL has one yarn manufacturing unit with a total capacity of 1879.20 Tonns besides power generation capacity of 36MW through windmills and 5MW through solar plant. The capacity utilization for yarn manufacturing unit in FY23 stood at ~98.85% (~97.12% in FY22).

##### **Moderate Financial Risk Profile**

The financial risk profile of the company is marked by moderate capital structure and debt protection metrics. SDSPL's TOL/ Net Adjusted TNW stood at 1.79x as on March 31, 2023, Prov. (2.16x as on March 31, 2022) due to increase in Adjusted tangible net worth. Further, Overall gearing net adjusted stood at 1.70x as on March 31, 2023, Prov. (1.79x as on March 31, 2022). The promoters have been regularly



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infusing funds by way of unsecured loans which are subordinated to the bank debt, which keeps the net worth (net adjusted) at moderate levels. The debt protection metrics also remained moderate with Interest coverage ratio of 2.90x in FY23 Prov. (3.41x in FY22) due to increase in finance cost in FY23 Prov. Total debt to GCA Stood moderate at 5.15x as on March 31, 2023, Prov. (5.12x as on March 31, 2022).

### **Healthy revenue visibility aided by the long-term PPAs with customers.**

SDSPL is supplying power generated through windmills and solar plants to various group captive companies located in and around Coimbatore. The company has entered into a Power Purchase Agreement (PPA) of 10 years for windmill and 12 years for Solar, which provides sustainability of revenue from this segment for mid-long term period.

### **Key Rating Weaknesses**

#### **Risks associated with volatility in the raw material prices.**

The major raw material used in the production of yarn and fabric is cotton. The company does not have any long-term agreement for procurement of raw material and procures most of the raw material requirement from the spot market, thus exposing it to volatility in the raw material price. Further, the finished goods price is also highly volatile and prone to fluctuations based on global demand-supply situations and other macro-economic factors, which leaves its profitability highly susceptible to price volatility.

#### **Working capital intensive nature of business**

The operating cycle was of around 106 days FY23 Prov. (97 days in FY22). The company maintains an average inventory of around 50 to 60 days of various varieties and grades for smooth running of operations. Its average collection period remained at 65 days in FY23 Prov. (46 days in FY22), while the average creditor days remained at 14 days in FY23 Prov. (12 days in FY22).

#### **Cyclicality in the textile industry**

The concerns around the textile industry have much to do with the cyclical nature of its business. The industry is sensitive to economic conditions and factors such as consumer demand, inflation, disposable income levels and demographic trends. Margins are exposed to volatility in raw material prices and competition.

#### **Vulnerability of cash flows to variation in weather conditions for power segment**



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The revenues and cash flows of the company from power segment remain exposed to fluctuations in the wind pattern, intensity & availability of sun light and other climatic conditions.

**Analytical Approach:** Standalone

**Applicable Criteria:**

[Policy on Default Recognition](#)

[Criteria of assigning Rating outlook](#)

[Rating Methodology for Manufacturing Companies](#)

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

**Liquidity: Adequate**

SDSPL's liquidity position remained adequate marked by current ratio of 1.71x as on March 31, 2023 (1.67x as March 31, 2022). Gross cash accruals stood at Rs. 19.50 crore in FY23 Prov. (Rs. 18.42 crore in FY22). The company's cash accruals are sufficient to meet its repayments in FY24-26. The average utilisation of its fund based and non-fund based working capital facilities is 83.54% and 81.04%, respectively in the 12 months ended June 2023, giving it sufficient headroom.

**About the company**

Promoters initially started two proprietary concerns in 1995 namely Shri Dhanalakshmi Sizing Mills and Shri Dhanalakshmi Spinning Mills. Subsequently, both of this proprietary concern was merged and converted into a partnership firm as Shri Dhanalakshmi Textiles. Later, in 2003 named was changed to Shri Dhanalakshmi Sizing and Spinning Mills. In 2012 Partnership firm was converted into Private Limited company named as Shri Dhanalakshmi Spintex Private Limited. The company is engaged in the business of Yarn manufacturing, wind power generation and solar power generation. The company's yarn manufacturing facilities are located at Coimbatore, Tamil Nadu and windmills & solar plant are located at strategic locations in Tamil Nadu where the sun rays are bright, and flow of the wind is strong. SDSPL has a total



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manufacturing capacity of 1879.2 Tonns for manufacturing of Yarn and 36.225 MWH of power is generated through windmills and 5 MWH of power is generated through Solar plant.

### Financials (Standalone):

(Rs. crore)

For the year ended / As On*	31-03-2022 (Audited)	31-03-2023 (Provisional )
Total Operating Income	166.44	168.41
EBITDA	27.16	28.72
PAT	8.71	8.78
Total Debt	94.31	100.37
Tangible Networkth (Net Adjusted)	51.92	59.17
<b>Ratios</b>		
EBITDA Margin (%)	16.32	17.05
PAT Margin (%)	5.22	5.19
Overall Gearing Ratio (x) (Net Adjusted)	1.79	1.70

\*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 Instrument/Facilities	Current Ratings (Year 2023-24)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2022-23	Date(s) & Rating(s) assigned in 2021-22	Date(s) & Rating(s) assigned in 2020-21
1	Long Term Bank Facilities – Cash Credit	Long Term	18.00	IVR BBB-/Stable	-	-	-
2	Long Term Bank Facilities – Term Loans	Long Term	54.05	IVR BBB-/Stable	-	-	-
3	Long Term Bank	Long Term	18.24	IVR BBB-/Stable	-	-	-



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Sr. No.	Name of Instrument/Facilities	Current Ratings (Year 2023-24)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2022-23	Date(s) & Rating(s) assigned in 2021-22	Date(s) & Rating(s) assigned in 2020-21
	Facilities – GECL						
4	Short Term Bank Facilities – Letter of Credit	Short Term	9.00	IVR A3	-	-	-

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### About Infomerics:

Infomerics Valuation and Rating Private Limited (Infomerics) was founded in the year 1986 by a team of highly experienced and knowledgeable finance professionals. Subsequently, after obtaining Securities Exchange Board of India registration and RBI accreditation and the activities of the company are extended to External Credit Assessment Institution (ECAI).

Adhering to best International Practices and maintaining high degree of ethics, the team of knowledgeable analytical professionals deliver credible evaluation of rating.

Infomerics evaluates wide range of debt instruments which helps corporates open horizons to raise capital and provides investors enlightened investment opportunities. The transparent, robust and credible rating has gained the confidence of Investors and Banks.

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### Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. crore)	Rating Assigned/ Outlook
Cash Credit	-	-	-	18.00	IVR BBB-/Stable
Term Loan	-	-	Feb, 2031	54.05	IVR BBB-/Stable
GECL	-	-	June, 2027	18.24	IVR BBB-/Stable
Letter of Credit	-	-	-	9.00	IVR A3

**Annexure 2: List of companies considered for consolidated analysis:** Not Applicable

**Annexure 3: Facility wise lender details**

<https://www.infomerics.com/admin/prfiles/len-SDSPL-sep23.pdf>

**Annexure 4: Detailed explanation of covenants of the rated instrument/facilities:** 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](http://www.infomerics.com).