

Press Release

PARANI SPINNING MILLS PRIVATE LIMITED

March 06, 2018

Rating Reaffirmed



Total Bank Facilities Rated*	Rs. 21.00 Cr.
Long Term Rating	SMERA B- / Outlook: Stable
Short Term Rating	SMERA A4

* Refer Annexure for details

Rating Rationale

SMERA has reaffirmed long-term rating of '**SMERA B-**' (**read as SMERA B minus**) and short term rating of '**SMERA A4**' (**read as SMERA A four**) on the Rs. 21.00 crore bank facilities of PARANI SPINNING MILLS PRIVATE LIMITED. The outlook is '**Stable**'.

PSMPL incorporated in 1988 is managed by Mr. Karuppuswamy and family. The company is engaged in manufacturing of cotton hosiery combed and melange yarns ranging from 25 to 40s counts. PSMPL has its manufacturing unit at Vedasandur Dindigul. The company has an installed capacity of 38912 spindles and production capacity of 9500 kgs per day. The company is utilising 90-95 percent of its production facilities.

Key Rating Drivers

Strengths

- **Experienced management and long track record of operations**

Mr. Karuppuswamy has an experience of over 40 years in yarn industry and looks after the operations of both the companies engaged in similar line of business. Also the group enjoys a long standing record of operations which enables the company to get repeat orders.

Weaknesses

- **Susceptibility of margins to raw material price fluctuations**

Prices of raw cotton are stated by government through Minimum Support Price (MSP). However the purchase price depends on the prevailing demand-supply situation which restricts bargaining power with the suppliers as well. Any adverse movement of cotton prices further impacts the profitability.

- **Presence in a high competitive and fragmented yarn industry**

The industry is fragmented and competitive with presence of large number of unorganized players.

- **Working capital intensive operations**

The group's operations are working capital intensive with high GCA of around 255 days in FY17 with high inventory of around 145 days and debtors of around 63 days. The group is utilising almost 100% of its facility.

- **Experienced management and long track record of operations**

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- **Below average financial risk profile**

The overall gearing stands high at around 11.90 times as on March 31 2017. The group has a low net worth of Rs.5.47 Crore. Total debt of Rs.65.04 crore mainly includes unsecured loans of Rs.22.58 crore from promoters & related party term loan of Rs.0.44 crore short term borrowing of Rs.38.00 crore and CPLTD of

Rs.1.42 crore. There is high dependence of external funds due to which gearing levels shoot up. The interest coverage ratio is low at 1.46 times and DSCR is 1.29 times in FY2017.

Analytical Approach

SMERA has consolidated the financial and business risk profiles of Parani Spinning Mills Private Limited (PSMPL) and Guhan Textiles Mills Private Limited (GTMPL) on account same promoters, similar line of & financial fungibility.

Outlook: Stable

SMERA believes the Group outlook will remain stable owing to long experience of the promoters in the business. The outlook may be revised to 'Positive' if company is able to improve on its overall financial risk profile or scale up the operations with improvement in profitability margins. Conversely the outlook may be revised to 'Negative' in case of additional working capital borrowings leading to deterioration in the overall gearing or weakening of profitability margins.

About the Rated Entity - Key Financials

	Unit	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	124.80	135.39
EBITDA	Rs. Cr.	7.13	11.21
PAT	Rs. Cr.	1.53	0.65
EBITDA Margin (%)	(%)	5.71	8.28
PAT Margin (%)	(%)	1.22	0.48
ROCE (%)	(%)	17.03	15.46
Total Debt/Tangible Net Worth	Times	10.14	16.76
PBDIT/Interest	Times	1.66	1.52
Total Debt/PBDIT	Times	3.81	4.69
Gross Current Assets (Days)	Days	178	136

Status of non-cooperation with previous CRA (if applicable)

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.smerra.in/criteria-default.htm>
- Manufacturing Entities - <https://www.smerra.in/criteria-manufacturing.htm>
- Financial Ratios And Adjustments - <https://www.smerra.in/criteria-fin-ratios.htm>

Note on complexity levels of the rated instrument

<https://www.smerra.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
02-Dec-2016	Cash Credit	Long Term	INR 14	SMERA B- / Stable
	Term Loan	Long Term	INR 2.35	SMERA B- / Stable
	Buyers Credit	Short Term	INR 0.65	SMERA A4

	Letter of Credit	Short Term	INR 3	SMERA A4
	Proposed Cash Credit	Long Term	INR 1	SMERA B- / Stable
02-Nov-2015	Term Loan	Long Term	INR 1.4	SMERA D
	Cash Credit	Long Term	INR 12	SMERA D
	Letter of Credit	Short Term	INR 3	SMERA D
15-Sep-2014	Cash Credit	Long Term	INR 12	SMERA D
	Term Loan	Long Term	INR 1.4	SMERA D
	Letter of Credit	Short Term	INR 3	SMERA D

*Annexure - Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	14.00	SMERA B- / Stable
Term loans	Not Applicable	Not Applicable	Not Applicable	0.46	SMERA B- / Stable
Buyers Credit	Not Applicable	Not Applicable	Not Applicable	2.00	SMERA A4
Letter of credit	Not Applicable	Not Applicable	Not Applicable	3.00	SMERA A4
Proposed	Not Applicable	Not Applicable	Not Applicable	1.54	SMERA B- / Stable

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ABOUT SMERA

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