

August 03, 2015

Facilities	Amount (Rs. Crore)	Ratings
Term Loan	8.05	SMERA BB+/Stable (Assigned)
Cash Credit	10.50*	SMERA BB+/Stable (Assigned)
EPCG Bank Guarantee	0.43	SMERA A4+ (Assigned)

**Includes sublimit of Rs. 6.00 crore of export packing credit and Rs. 3.00 crore of FBDN (Non-LC)*

SMERA has assigned ratings of '**SMERA BB+**' (**read as SMERA double B plus**) and '**SMERA A4+**' (**read as SMERA A four plus**) to the Rs. 18.98 crore bank facilities of Ranganayaka Spinning Mills Private Limited (RSMPL). The outlook is '**Stable**'. The rating derives comfort from the company's established market position and the promoter's extensive industry experience apart from the healthy business risk profile and above average financial risk profile. However, the rating is constrained by the company's working capital-intensive nature of operations. The ratings are also constrained by the highly competitive and fragmented nature of the cotton yarn industry and susceptibility of the company's profitability margins to volatility in cotton prices.

RSMPL, incorporated in 2006, is a Guntur-based company engaged in the manufacture of cotton yarn in the range of 32s to 60s counts. The company has been operating in the cotton yarn industry for around a decade and benefits from its established market position. Further, RSMPL is promoted by Mr. G. Ramalingeshwara Rao who possess around 35 years of experience in the textile industry.

The company has a healthy business risk profile marked by healthy growth in revenue and profitability margins. RSMPL registered a year-on-year growth of 45 percent on its operating income of Rs.55.59 crore in FY2013-14 (refers to financial year, April 1 to March 31) as against Rs.38.33 crore in the previous year on account of new customers and geographical diversification of its customer base. Similarly, the operating profit margins of the company increased by 440 basis point to 15.8 per cent in FY2013-14 as against 11.12 per cent in the previous year largely on account of lower power cost and benefits of economies of scale. The rating also factors in the company's above average financial risk profile driven by low gearing and comfortable debt protection indicators. The gearing stands at 1.30 times as on March 31, 2014 which has further improved to 0.78 times as on March 31, 2015 (provisional) and this is attributed to continuous growth in its net-worth and absence of any debt-funded capex plan . Further, the debt protection indicators stand comfortably with interest coverage ratio at 3.50 times as on March 31, 2014.

However, the company's operations are highly working capital intensive with inventory days at 97 for FY2013-14. RSMPL operates in the highly competitive and fragmented cotton industry that limits the bargaining power of the company with regard to credit terms for raw material procurement. Besides, cotton, the major raw material is prone to high volatility in prices which can impact the profitability of the company.

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Outlook: Stable

SMERA believes that RSMPL will continue to benefit over the medium term on account of the company's established market position in the cotton yarn industry and extensive experience of its promoters. The outlook may be revised to 'Positive' in case the company registers substantial increase in its profitability margins supported by healthy revenue growth or significant improvement in its capital structure resulting from considerable equity infusion by its promoters. Conversely, the outlook may be revised to 'Negative' in case of sharp decline in company's profitability margins or significant deterioration in the financial risk profile due to debt-funded capital expenditure or elongated working capital cycle.

About the Company

RSMPL, incorporated in 2006, is a Guntur-based company promoted by Mr. G. Ramalingeshwara Rao, Mr. Pavan Kumar Guntupalli and Mr. Rajesh Kumar Guntupalli. The company is engaged in the manufacture of cotton yarn in the range of 32s to 60s counts and has an installed capacity of 18,000 spindles.

RSMPL reported PAT (profit after tax) of Rs. 3.44 crore on operating income of Rs. 55.59 crore for FY2013-14, as compared with PAT (profit after tax) of Rs.0.19 crore on operating income of Rs.38.33 crore in the previous year. The company registered revenue of ~Rs.50.86 crore (provisional) in FY2014-15. RSMPL's net worth stood at Rs.16.63 crore as on March 31, 2014, as against Rs.13.21 crore a year earlier.

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