

Suryaamba Spinning Mills Limited:Upgraded

Facilities	Amount (Rs. Crore)	Ratings/Outlook
Cash Credit	16.00* (enhanced from Rs. 13.00 crore)	SMERA BBB-/Stable (Upgraded from SMERA BB+/Stable)
Cash Credit	3.28 (enhanced from Rs. 3.00 crore)	SMERA BBB-/Stable (Upgraded from SMERA BB+/Stable)
Term Loan I	10.40 (revised from Rs. 12.75 crore)	SMERA BBB-/Stable (Upgraded from SMERA BB+/Stable)
Term Loan II	5.52**	SMERA BBB-/Stable (Assigned)
Bank Guarantee	2.00 (enhanced from Rs. 0.25 crore)	SMERA A3 (Upgraded from SMERA A4+)
Letter of Credit	1.00	SMERA A3 (Upgraded from SMERA A4+)

*Includes sublimit of EPC/EBD/PCFC/EBR to the extent of Rs. 3.00 crore.

** Includes sublimit of capex Letter of Credit to the extent of Rs. 3.50 crore.

SMERA has upgraded the long term rating of the abovementioned bank facilities of Suryaamba Spinning Mills Limited (SSML) to '**SMERA BBB-**' (read as **SMERA triple B minus**) and the short term rating to '**SMERA A3**' (read as **SMERA A three**) from SMERA BB+ (read as SMERA double B plus) and SMERA A4+ (read as SMERA A four plus) respectively. The outlook is '**Stable**'. Further, SMERA has assigned '**SMERA BBB-**' (read as **SMERA triple B minus**) to the Rs.5.52 crore bank facilities of SSML.

The rating upgrade is in view of improvement in the net worth, gearing, and debt protection metrics. Further, the company has also reported improved profitability margins for the year ended 31 March, 2016. Further, SMERA expects that the company will sustain improvement in its financial risk profile over the medium term on the back of consistent growth in its net worth.

The ratings continue to draw support from the promoter's extensive experience in the textile industry, established relations with customers and suppliers and healthy financial risk profile. The ratings also factor in the comfortable liquidity position of the company. However, the ratings are constrained by susceptibility of the operating margins to volatility in raw material prices and intense competition in the highly fragmented textile industry. The ratings also take into account the debt funded capex of the company.

Update

SSML reported profit after tax (PAT) of Rs.2.97 crore on operating income of Rs.148.20 crore for FY2015-16 (refers to financial year, April 01 to March 31) as compared to PAT of Rs.1.81 crore on operating income of Rs.146.59 crore in the previous year. The company reported operating margin of 8.81 per cent for FY2015-16 vis-à-vis 7.43 per cent in the previous year. The improvement in profitability is on account of decline in raw material prices and addition of value added products in the sales mix. The financial risk profile continues to be healthy marked by gearing of 1.31 times in FY2015-16 vis-à-vis 1.36 times in the previous year. The company has subordinated interest-bearing unsecured loans of Rs.6.76 crore (as on March 31, 2015) from promoters and related parties. SMERA has treated such unsecured loans as quasi-equity. Further, the debt protection metrics are comfortable with Interest coverage ratio at 2.31 times vis-à-vis 2.09 times in the previous year and Debt service coverage ratio at 1.57 times vis-à-vis 1.43 times in the previous year. The ROCE stood at 13.89 per cent for FY2015-16 vis-à-vis 11.40 per cent crore in the previous year. The working capital cycle stood at 42 days for FY2015-16 and is expected to be maintained

around 30-50 days over the medium term. SSML operates in a highly competitive and fragmented textile industry. Further, the profitability of the company is susceptible to volatility in raw material prices which in turn follows the trend of crude oil prices.

SSML has an ongoing project wherein it plans to procure TFO Twister and Cone winding machine and set up manufacturing unit for polyester viscose 2 piled yarn with capacity of 2,016 spindles. The total project cost of Rs.8.90 crore will be funded through a term loan of Rs.5.52 crore and the balance of Rs.3.38 crore through internal accruals and unsecured loans from promoters. The commercial operations of the project are expected to start by September, 2016.

Further, SSML also plans to manufacture circular knitted fabrics for women at a total cost of Rs.7.45 crore. Out of this, around Rs.5.46 crore will be funded through a term loan and the remaining Rs.1.98 through promoter's funds. However, SMERA believes that the debt funded capex will not have a significant impact on the financial risk profile of the company.

Rating Sensitivity Factors

- Scaling up operations while improving profitability
- Adverse movements in raw material prices and forex rates
- Efficient working capital management
- Debt funded capex impacting the financial risk profile

Criteria applied to arrive at the ratings:

- Manufacturing Entities

Outlook-Stable

SMERA believes that SSML will continue to maintain a stable outlook and benefit over the medium term from its promoters extensive industry experience. The outlook may be revised to 'Positive' if the company achieves significant growth in revenue and registers improvement in profitability while maintaining comfortable liquidity position. Conversely, the outlook may be revised to 'Negative' if SSML reports considerably low accruals because of decline in revenue and profitability or registers deterioration in the financial risk profile due to debt funded capital expenditure.

About the Company

The Hyderabad-based SSML, incorporated in 2007 was promoted by Mr. Virendra Kumar Agarwal and family. The company manufactures polyester and synthetic yarn at Nagpur, Maharashtra and the installed capacity of the unit is 43,632 spindles.

In FY2015-16, SSML reported profit after tax (PAT) of Rs.2.97 crore on operating income of Rs.148.20 crore, as compared to PAT of Rs.1.81 crore on operating income of Rs.146.59 crore in the previous year.

Rating History

Date	Name of the Instrument	Amount (Rs. Crore)	Ratings		Rating Outlook
			Long Term	Short Term	
26 October, 2015	Cash Credit	13.00#	SMERA BB+ (Assigned)	-	Stable
	Cash Credit	3.00	SMERA BB+ (Assigned)	-	Stable
	Term Loan	12.75	SMERA BB+ (Assigned)	-	Stable
	Letter of Credit	1.00	-	SMERA A4+ (Assigned)	-
	Bank Guarantee	0.25	-	SMERA A4+ (Assigned)	-

Includes sublimit of EPC/FBD to the extent of Rs. 1.60 crore.

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ABOUT SMERA

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