



SMERA RATINGS LIMITED

Sri Saravana Spinning Mills Private Limited (SSMPL)

**Rating
Rationale**
March 02, 2016

Facilities	Amount (Rs. Crore)	Ratings
Cash Credit	43.75*	SMERA BBB/Stable (Assigned)
Term Loan	19.03	SMERA BBB/Stable (Assigned)
Bill Discounting	5.00	SMERA A2 (Assigned)
Letter of Guarantee	2.00	SMERA A2 (Assigned)

* Sublimit of Inland credit of Rs. 10.00 crore - 180days

SMERA has assigned long term rating of '**SMERA BBB**' (read as **SMERA triple B**) and short term rating of '**SMERA A2**' (read as **SMERA A two**) to the Rs.69.78 crore bank facilities of Sri Saravana Spinning Mills Private Limited (SSMPL). The outlook is '**Stable**'. The ratings derive comfort from the experienced management and healthy financial risk profile. The ratings also draw support from the comfortable working capital management and sound liquidity position. However, the ratings are constrained by the marginal growth in revenues, susceptibility of profitability to volatility in raw material prices and the highly competitive and fragmented textile industry. The ratings also factor in the debt funded capex plan for setting up of garment unit.

SSMPL, incorporated in 1984 is headed by Mrs. K. Balamani (Managing Director), Mr. Jaikumar Krishnasamy (CEO & Director) and family who have over three decades of experience in the industry. The company has healthy financial risk profile marked by low gearing of 1.28 times and comfortable interest coverage ratio (ICR) of 4.13 times in FY2015. The debt service coverage ratio (DSCR) stood at 1.72 times in FY2015.

SSMPL has comfortable liquidity position marked by healthy net cash accruals as on March 31, 2015. The average utilisation of the working capital limit is ~62 per cent for cash credit for six months ended January, 2016.

However, the ratings are constrained by marginal growth in the operating income that stood at Rs.231 crore in FY2015 as against Rs.227 crore in FY2014. Further, for the period April, 2015 to January, 2016, the operating income stood at Rs.196 crore. The company is susceptible to volatility in raw material prices and intense market competition.

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*Rating
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Rating Sensitivity Factors

- Ability to scale up revenue while improving profitability
- Deterioration in the capital structure and coverage indicators
- Higher than envisaged debt funded capex

Outlook: Stable

SMERA believes that SSMPL will continue to benefit over the medium term on account of the extensive experience of its promoters. The outlook may be revised to 'Positive' if the company registers substantial increase in profitability margins supported by healthy revenue growth. Conversely, the outlook may be revised to 'Negative' in case of decline in profitability margins or significant deterioration in the financial risk profile due to debt-funded capex or working capital borrowings.

About the Company

SSMPL, incorporated in 1984 is engaged in the manufacture of yarn. The company operates through two units - the spinning mill located at Dindigul, Tamil Nadu and the other for yarn and fabric dyeing. The spinning mill has an installed capacity of 32,256 spindles with production capacity of 15,428,000 kgs per annum. The yarn manufactured is of count ranging from 30s to 40s mainly used in hosiery material.

SSMPL reported profit after tax (PAT) of Rs.18.09 crore on operating income of Rs.231.12 crore for FY2014-15, as compared with PAT of Rs.9.49 crore on operating income of Rs.226.69 crore in FY2013-14. The tangible net worth stood healthy at Rs.52.51 crore as on March, 2015 as against Rs. 34.54 in the previous year.

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