

## Press Release

### Guntur Spinning Mills Private Limited (GSMPL)

09 February, 2016

#### Rating Assigned

<b>Total Bank Facilities Rated*</b>	Rs.48.78 Cr
<b>Long Term Rating</b>	SMERA BBB-/Stable (Assigned)
<b>Short Term Rating</b>	SMERA A3 (Assigned)

*\*Refer Annexure for details*

#### Rating Rationale

SMERA has assigned long term rating of **'SMERA BBB-'** (read as **SMERA triple B minus**) on the Rs.48.10 crore (fund based) facility and short term rating of **'SMERA A3'** (read as **SMERA A three**) on the Rs.0.68 crore (non-fund based) facility of Guntur Spinning Mills Private Limited (GSMPL). The outlook is **'Stable'**.

GSMPL is engaged in the spinning and knitting of cotton yarn.

#### List of key rating drivers and their detailed description

##### Strengths:

**Experienced management:** Incorporated in 2005, GSMPL is engaged in the spinning and knitting of yarn. The management is headed by Mr. Venkata Satyanarayana Mamidiapaka, Mr. Lokeswara Rao Chittiprolu, Mr. Venkata Srinivasa Rao Mamidiapaka and Mr. Sarvani Mamidiapaka who possess collective experience of 30 years in the textile industry.

**Significant revenue growth:** GSMPL clocked revenue of Rs.90.35 crore in FY2016 as compared to Rs.53.15 crore in FY2015. The revenue growth is mainly driven by the recent capacity expansion to 32,840 spindles from 15,600 spindles and increase in exports to countries such as Germany, Switzerland, Japan, China and Pakistan. The company registered revenue of Rs.59.79 crore till 30th November, 2016 (provisional) and expects revenue of over Rs.100 crore in FY2017.

**Prudent working capital management:** The efficient working capital management of the company is marked by gross current asset (GCA) days between 93 to 98 days in the past two years ended FY2016. The debtor and inventory days stood at 7 and 86 in FY2016 as compared with debtors and inventory days of 2 and 64 in the preceding year. The production of the company is almost entirely order backed necessitating high raw material inventory during heavy order flow. Hence the average bank limit utilisation was low at 47 percent in the past six months ended November 2016.

**Healthy margins and accruals:** The operating margins have been healthy at 10.29 percent in FY2016 as against 10.04 percent in FY2015. The PAT margin stood at 1.43 percent in FY2016 and 3.51 percent in FY2015. Also, the accruals are healthy, increasing on a y-o-y basis. The NCA stood at Rs.4.31 crore in FY2016 as compared to Rs.3.30 crore in FY2015.

**Comfortable financial risk profile:** The comfortable financial risk profile of the company is marked by comfortable debt protection metrics, moderate gearing and healthy net worth base. The interest coverage and debt service coverage ratios stood at 2.67 times and 1.05 times in FY2016. However, the same were at 4.24 times and 1.12 times in FY2015. The decline in the above ratio is due to a debt funded capex undertaken in April 2015 to double the spindle capacity. The gearing stood at 1.67 times as on 31 March, 2016 as compared to 0.78 times in the previous year. The net worth base is comfortable at Rs.24.05 crore as on 31 March, 2016. While arriving at the networth, SMERA has treated unsecured loans of Rs. 3.80 crore as quasi equity as this amount is from the promoters and directors who have undertaken to maintain this amount in the business over the medium term. The

financial risk profile is expected to improve going further due to steady accretion to reserves, consistent revenue growth and repayment of external debt.

**Weaknesses:**

**Susceptibility of profitability to volatility in raw material prices:** The prices of raw material - raw cotton is highly volatile and depends on several factors including government policies. Volatility in the prices of cotton impacts the profitability of the company. This is witnessed from an operating margin of 10.29 percent in FY2016 as compared to 7.77 percent in FY2014. However, the above margins are likely to be sustained in the near future with the introduction of compact yarn which yields relatively better margins.

**Highly competitive and fragmented industry:** GSMPL operates in a highly competitive cotton industry with several unorganised players limiting the bargaining power of the company.

**Analytical approach:** SMERA has considered the standalone business and financial risk profiles of the company.

**Applicable Criteria**

- Manufacturing Entities: <https://www.smera.in/criteria-manufacturing.htm>
- Application of Financial Ratios and Adjustments: <https://www.smera.in/criteria-fin-ratios.htm>
- Default Recognition: <https://www.smera.in/criteria-default.htm>

**Outlook: Stable**

SMERA believes that GSMPL will maintain a stable outlook in the medium term while benefitting from its experienced management and comfortable financial risk profile. The outlook may be revised to 'Positive' owing to GSMPL's sustained scaling up of operations and profitability while further improving its working capital management and financial risk profile. Conversely, the outlook may be revised to 'Negative' in case of lower-than-expected growth in revenues and profitability or if the working capital cycle deteriorates.

**About the Rated Entity**

Incorporated in 2005, GSMPL is engaged in the spinning and knitting of yarn. The company is headed by Mr. Venkata Satyanarayana Mamidiapaka, Mr. Lokeswara Rao Chittiprolu, Mr. Venkata Srinivasa Rao Mamidiapaka and Mr. Sarvani Mamidiapaka. The manufacturing facility, located at Guntur, Andhra Pradesh has an installed capacity of 32,840 spindles.

For FY2016, GSMPL reported profit after tax (PAT) of Rs.1.30 crore on total operating income of Rs.90.35 crore, as compared with PAT of Rs.1.87 crore on total operating income of Rs.53.15 crore in FY2015. The tangible net worth stands at Rs.24.05 crore in FY2016 as compared to Rs.22.73 crore in FY2015 which includes Rs.3.80 crore and Rs.3.77 crore of unsecured loans treated as quasi-equity in FY2016 and FY2015 respectively.

**Status of non-cooperation with previous CRA (if applicable):** Not Applicable

**Any other information:** Not Applicable

**Rating History for the last three years:**

Name of Instrument /Facilities	2017			2016		2015		2014	
	Scale	Amount (Rs. Crore)	Rating with Outlook	Date	Rating	Date	Rating	Date	Rating
Cash Credit*	Long Term	16.00	SMERA BBB- / Stable	-	-	-	-	-	-
Term Loan**	Long Term	32.10	SMERA BBB- / Stable	-	-	-	-	-	-
Export Promotion Bank Guarantee	Short Term	0.54	SMERA A3	-	-	-	-	-	-
Proposed	Short Term	0.14	SMERA A3	-	-	-	-	-	-

\* Contains EPC/PCFC and FBDN (Non-LC)/ EBR of Rs.6.00 crore as sub-limits.

\*\*Contains LC (Capex) of Rs.1.95 crore as sub-limit.

**\*Annexure – Details of instruments rated:**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/ Outlook
Cash Credit*	N.A	N.A	N.A	16.00	SMERA BBB- / Stable
Term Loan**	N.A	N.A	March 2024	32.10	SMERA BBB- / Stable
Export Promotion Bank Guarantee	N.A	N.A	N.A	0.54	SMERA A3
Proposed	N.A	N.A	N.A	0.14	SMERA A3

\* Contains EPC/PCFC and FBDN (Non-LC)/ EBR of Rs.6.00 crore as sub-limits.

\*\*Contains LC (Capex) of Rs.1.95 crore as sub-limit.

**Note on complexity levels of the rated instrument:**

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

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**ABOUT SMERA**

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