Press Release

Guntur Spinning Mills Private Limited (GSMPL)

02 May, 2018

Rating Reaffirmed

Total Bank Facilities Rated*	Rs. 48.78 crore
Long Term Rating	SMERA BBB-/ Stable (Reaffirmed)

**Refer Annexure for details*

Rating Rationale

SMERA has reaffirmed the long term rating of **'SMERA BBB-' (read as SMERA triple B minus)** on the Rs. 44.12 crore bank facilities and assigned the long term rating of **'SMERA BBB-' (read as SMERA triple B minus)** on the Rs**.** 4.66 crore bank facilities of Guntur Spinning Mills Private Limited (GSML). The outlook is **'Stable'**.

Further, SMERA has withdrawn the short term rating of **'SMERA A3' (read as SMERA A three)** on the Rs.0.54 crore bank facility.

GSML is engaged in the spinning of yarn at Guntur (Andhra Pradesh). The company is headed by Mr. Venkata Satyanarayana Mamidiapaka, Mr. Venkata Srinivasa Rao Mamidiapaka and Mr. Sarvani Mamidiapaka. The installed capacity stands at 32,840 spindles.

Key rating drivers

Strengths

Experienced management
Incorporated in 2005, GSML is engaged in the spinning of yarn. The promoters collectively possess experience of 30 years in the textile industry.

Prudent working capital management
The efficient working capital management is marked by Gross Current Asset (GCA) days of 89 in FY2017 as compared to 98 in FY2016. The debtor and inventory days stood at 10 and 72 respectively in FY2017 as compared to 7 and 86 in the preceding year. The production is almost entirely order backed necessitating high raw material inventory during heavy order flow.

Weaknesses

Moderate financial risk profile

The financial risk profile of GSMPL stands moderate marked by tangible net worth of Rs.25.77 crore as on 31 March 2017 as against Rs.24.05 crore as on 31 March 2016. The Gearing stood at 1.61 times as on 31 March 2017 as against 1.67 times as on 31 March 2016. The total debt is Rs.41.59 crore as on 31st March, 2017 which comprises long term debt of Rs.24.98 crore and short term debt of Rs.13.05 crore. The Interest Coverage Ratio (ICR) stood at 3.60 times in FY2017 from 2.67 times in FY2016. Total Other Liability / Total Net Worth (TOL/TNW) stood at 1.96 times in FY2017 as against 2.15 times in FY2016.

Moderate scale of operations and decline in profitability

The GSMPL's revenues have increased to Rs.100.69 crore in FY2017 from Rs.90.35 crore in FY2016. The operating margin has declined to 9.83 per cent in FY2017 from 10.29 per cent in FY2016. This is mainly on account of increase in the power cost.

Susceptibility of profitability to volatility in raw material prices

Raw cotton prices are highly volatile in nature and are largely dependent on factors such as area under cultivation, crop yield, international demand-supply scenario, export quota decided by the government and inventory of the previous year. Volatility in the prices of cotton, the major raw material, impacts profitability of the company.

Analytical Approach

SMERA has considered the standalone business and financial risk profiles of GSML to arrive at the rating.

Applicable Criteria

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

Note on complexity levels of the rated instrument

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

Outlook: Stable

SMERA believes that GSML will maintain a 'Stable' outlook over the medium term owing to its experienced management and prudent working capital management. The outlook may be revised to 'Positive' if GSML scales up profitability with sustained revenue growth. Conversely, the outlook may be revised to 'Negative' in case the company registers lower-than-expected growth in revenue and profitability or if the working capital cycle deteriorates.

About the Rated Entity –Key Financials

	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	100.69	90.35	53.15
EBITDA	Rs. Cr.	71.34	64.25	40.22
PAT	Rs. Cr.	11.29	10.56	3.20
EBITDA Margin	(%)	9.83	10.29	10.04
PAT Margin	(%)	1.71	1.43	3.51
ROCE	(%)	5.41	4.77	6.22
Total Debt/Tangible Net Worth	Times	1.61	1.67	0.78
PBDIT/Interest	Times	3.60	2.67	4.24
Total Debt/PBDIT	Times	4.12	4.24	3.22
Gross Current Assets (Days)	Days	89	98	93

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

None

Rating History for the last three years:

Date	Name of Instrument / Facilities	Term	Amount (Rs. Crore)	Ratings/Outlook
9 Feb, 2017	Cash Credit	Long Term	16.00	SMERA BBB-/ Stable (Assigned)
	Term Loan	Long Term	32.10	SMERA BBB-/ Stable (Assigned)
	Bank Guarantee	Short Term	0.54	SMERA A3 (Assigned)
	Proposed Bank Facility	Short Term	0.14	SMERA A3 (Assigned)

*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	Not Applicable	Not Applicable	Not Applicable	16.00	SMERA BBB-/ Stable (Reaffirmed)
Term Loan	Not Applicable	Not Applicable	Not Applicable	28.12	SMERA BBB-/ Stable (Reaffirmed)
Bank guarantee	Not Applicable	Not Applicable	Not Applicable	0.54	SMERA A3 (Withdrawn)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	4.66	SMERA BBB-/ Stable (Assigned)

Contacts:

Analytical	Rating Desk
Suman Chowdhury President - SMERA Bond Ratings Tel: 022-67141107 suman.chowdhury@smera.in Leena Gupta Analyst - Rating Operations Tel: 022-67141172 leena.gupta@smera.in	Varsha Bist Manager - Rating Desk Tel: 022-67141160 varsha.bist@smera.in

ABOUT SMERA

SMERA Ratings Limited is a joint initiative of SIDBI, Dun & Bradstreet Information Services India Private Limited (D&B) and leading public and private sector banks in India. SMERA is registered with SEBI as a Credit Rating Agency and accredited by Reserve Bank of India. For more details, please visit www.smera.in.