

Press Release

Guntur Spinning Mills Private Limited

July 05, 2019

Rating Reaffirmed



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

* Refer Annexure for details

Rating Rationale

Acuite has reaffirmed the long term rating of '**ACUITE BBB-**' (read as **ACUITE triple B minus**) on the Rs. 48.78 crore bank facilities of Guntur Spinning Mills Private Limited (GSML). The outlook is '**Stable**'.

GSML started in 2006 with an initial capacity of 15600 spindles to manufacture 100% cotton yarn. Later in 2015, the company expanded by additional 17280 spindles. Currently, the total capacity is 32880 spindles producing 15 tons of yarn per day. The manufacturing facility [BT1] is well connected with national highway NH5, NH9 and also to Krishnapatnam & Chennai sea ports. It manufactures 4 varieties of yarn with count ranging from 30's to 60's which is sold in India and exported to many Asian countries. The export constitutes around 5% of the total revenue.

GSML, in July 2018, took an initiative to promote the Renewable Energy; started with a Captive energy plant of Siemens Gamesa 2 MW Wind Mill at Molagavalli, Kurnool district (Andhra Pradesh). This wind power plant is expected to generate 5 Million units per annum.

Analytical Approach

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

Key Rating Drivers:

Strengths

Experienced management

Incorporated in 2005, GSML is engaged in spinning of yarn. The promoters Mr. Satyanarayana Mamidipaka along with his brother Mr. Venkata Srinivasa Rao collectively possess experience of more than three decades in the textile industry.

Moderate financial risk profile

The financial risk profile of GSML stood moderate marked by moderate tangible net worth, low gearing and moderate debt protection metrics.

The tangible net worth of GSML stood at Rs. 30.25 crore as on 31 March, 2019 (Prov.) as against Rs. 29.74 crore as on 31 March, 2018. The gearing stood at 1.47 times as on 31 March, 2018 (Prov.) as against 1.17 times as on 31 March, 2018. The total debt is Rs. 44.45 crore as on 31 March, 2019 (Prov.) which comprises long term debt of Rs. 27.66 crore, short term debt of Rs.12.40 crore and current portion of long term debt is Rs. 4.39 crore. Interest Coverage Ratio (ICR) stood at 3.11 times in FY2019 (Provisional). Total Other Liability / Total Net Worth (TOL/TNW) stood at 2.10 times in FY2019 (Provisional) as against 1.68 times in FY2018.

Acuite believes that the financial risk profile will remain moderate in the near to medium term in the absence of major debt funded capital expenditure plans.

Weaknesses

Moderate scale of operations and decline in profitability

GSML's revenues have increased to Rs. 131.03 crore in FY2019 (Provisional) from Rs. 116.62 crore in FY2018. The operating margin has declined to 8.46 percent in FY2019 (Provisional) as against 9.95 percent in FY2018. This is mainly on account of increase in the power cost and increase in raw material prices.

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.

Liquidity Position:

Liquidity position of GSML is adequate with respect to net cash accruals vis-à-vis its term debt obligations. The working capital utilisation for the past six months is ~60% through May 2019. It has maintained unencumbered cash and bank balance of Rs. 2.12 crore as on March 2019 (Provisional).

Outlook: Stable

Acuite 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 | FY18 (Actual) | FY17 (Actual) | FY16 (Actual) |
|-------------------------------|---------|---------------|---------------|---------------|
| Operating Income | Rs. Cr. | 116.62 | 100.69 | 90.35 |
| EBITDA | Rs. Cr. | 11.61 | 9.89 | 9.30 |
| PAT | Rs. Cr. | 3.82 | 1.72 | 1.30 |
| EBITDA Margin | (%) | 9.95 | 9.83 | 10.29 |
| PAT Margin | (%) | 3.28 | 1.71 | 1.43 |
| ROCE | (%) | 11.25 | 9.35 | 19.64 |
| Total Debt/Tangible Net Worth | Times | 1.17 | 1.61 | 1.67 |
| PBDIT/Interest | Times | 4.70 | 3.60 | 2.67 |
| Total Debt/PBDIT | Times | 2.95 | 4.12 | 4.24 |
| Gross Current Assets (Days) | Days | 91 | 89 | 98 |

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

Not applicable

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.htm>
- Entities in Infrastructure sector - <https://www.acuite.in/view-rating-criteria-14.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-40.htm>

Note on complexity levels of the rated instrument

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

Rating History (Upto last three years)

| Date | Name of Instrument / Facilities | Term | Amount (Rs. Cr.) | Ratings/Outlook |
|-------------|---------------------------------|------------|------------------|-----------------------------------|
| 02-May-2018 | Cash Credit | Long Term | 16.00# | ACUITE BBB- / Stable (Reaffirmed) |
| | Term Loan | Short Term | 28.12 | ACUITE BBB- / Stable (Reaffirmed) |
| | Bank guarantee | Short Term | 0.54 | ACUITE A3 (Withdrawn) |
| | Proposed Bank facility | Long Term | 4.66 | ACUITE BBB- / Stable (Assigned) |
| 09-Feb-2017 | Cash Credit | Long Term | 16.00# | ACUITE BBB- / Stable (Assigned) |
| | Term Loan | Long Term | 32.10 | ACUITE BBB- / Stable (Assigned) |
| | Bank guarantee | Short Term | 0.54 | ACUITE A3 (Assigned) |
| | Proposed Bank facility | Short Term | 0.14 | ACUITE A3 (Assigned) |

Contains EPC/PCFC, FBDN (Non-LC)/ EBR and BG of Rs.4.00 crore, Rs. 1.50 crore and Rs.1.00 crore as sub-limits, respectively.

*Annexure – Details of instruments rated

| Name of the Facilities | Date of Issuance | Coupon Rate | Maturity Date | Size of the Issue (Rs. Cr.) | Ratings/Outlook |
|------------------------|------------------|----------------|----------------|-----------------------------|----------------------------------|
| Cash Credit | Not Applicable | Not Applicable | Not Applicable | 16.00# | ACUITE BBB-/ Stable (Reaffirmed) |
| Term Loan | Not Applicable | Not Applicable | Not Applicable | 23.10 | ACUITE BBB-/ Stable (Reaffirmed) |
| Term Loan | Not Applicable | Not Applicable | Not Applicable | 9.15 | ACUITE BBB-/ Stable (Reaffirmed) |
| Proposed Term Loan | Not Applicable | Not Applicable | Not Applicable | 0.53 | ACUITE BBB-/ Stable (Reaffirmed) |

Contains EPC/PCFC, FBDN (Non-LC)/ EBR and BG of Rs.4.00 crore, Rs. 1.50 crore and Rs.1.00 crore as sub-limits, respectively.

Contacts

| Analytical | Rating Desk |
|---|---|
| Aditya Gupta Head - Corporate and Infrastructure Sector Ratings Tel: 022-49294041 aditya.gupta@acuite.in Ayushi Rathore Analyst - Rating Operations Tel: 022-49294062 ayushi.rathore@acuite.in | Varsha Bist Manager - Rating Desk Tel: 022-67141160 rating.desk@acuite.in |

About Acuite Ratings & Research:

Acuite Ratings & Research Limited (Erstwhile SMERA Ratings Limited) is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 6,000 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Mumbai.

Disclaimer: An Acuité rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. Acuité ratings are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, Acuité, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. Acuité is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind arising from the use of its ratings. Acuité ratings are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website (www.acuite.in) for the latest information on any instrument rated by Acuité.