Press Release

Guntur Spinning Mills Private Limited

October 28, 2020

Rating Reaffirmed and Assigned

Total Bank Facilities Rated*	Rs.49.68 Cr
Long Term Rating	ACUITE BBB- / Stable (Reaffirmed)

** Refer Annexure for details*

Rating Rationale

Acuité has reaffirmed and assigned the long-term rating of '**ACUITE BBB-**' **(read as ACUITE triple B minus)** on the Rs.49.68 crore bank facilities of Guntur Spinning Mills Private Limited (GSMPL). The outlook is '**Stable**'.

About the company

Guntur based, Guntur Spinning Mills Private Limited (GSMPL) was incorporated in the year 2005 by Mr. Venkata Satyanarayana Mamidipaka. The company is engaged into manufacturing of cotton yarn with the manufacturing capacity of 32,880 spindles with counts ranging from 30s – 60s. GSMPL has a windmill with an installed power generation capacity of 2 Mega Watt (MW) for captive consumption.

The rating reaffirmation of the bank facilities of GSMPL factors in its established track record of operations, experienced management and moderate financial risk profile. These rating strengths are partially offset by working capital intensive nature of operations, susceptibility of profitability to volatility in cotton prices, which led to the low realisation, in turn, decline in revenue in FY2020 (provisional).

Analytical Approach

Acuité has considered the standalone business and financial risk profile of GSMPL to arrive at the rating.

Key Rating Drivers

Strengths

- **Long track record of operations and experienced management**
  Incorporated in 2005 by Mr. Venkata Satyanarayana Mamidipaka, GSMPL has a long track record of operations. Mr. Venkata Satyanarayana Mamidipaka (Managing Director) has around three decades of experience in the cotton industry. The promoters' extensive experience and long track record have helped GSMPL in improving its scale of operations and build established relationship with its suppliers and customers over the years. GSMPL's scale of operations has remained moderate. GSMPL generated revenue of Rs.116.62 Cr in FY2018, Rs.130.99 Cr in FY2019 and Rs.120.43 Cr in FY2020 (Provisional). The revenue dipped in FY2020 by 8.06 percent due to falling cotton yarn realisations. Muted growth in yarn production and 5.6 percent fall in cotton yarn realisation led to revenue dip. Lower volume and realisation of spinning waste and lint supplemented such decline. GSMPL's yarn realisation declined from Rs.235 per kg in FY2020 from Rs.222 per kg in FY2019. While the yarn production remained muted at 47,11,637 Kg in FY2020 against 47,38,617 Kg in FY2019. GSMPL has recorded revenue of Rs.28.40 Cr year-to-date until August, 2020 of FY2021 against Rs.45.5 Cr in the same period of last financial year; indicating a de-growth of 37.6 percent. The de-growth was owning to GSMPL remaining non-operational in the month of April and May of FY2021 on account of the outbreak of COVID-19. Acuité believes that the GSMPL will continue to benefit from its experienced management, a long track of business operations and well-established relationships with clients and suppliers over the medium term.

- **Strategic Location ensuring proximity to its raw materials**
  GSMPL's manufacturing facility is located at Guntur, Andhra Pradesh. GSMPL is located in one of the major cotton growing areas and enjoys the proximity to the cotton-producing belt of Andhra Pradesh is the strategic location ensures easy raw material access and smooth supply of raw materials and less transportation cost. Acuité believes that GSMPL's operating margins will continue to attain the benefits emerging from the strategic location of its manufacturing facility over the medium term.

- **Improving operating profit and stable net profit despite revenue fall in FY2020**
  GSMPL's operating profit has been improving over the last three years ending FY2020 from Rs.11.61 Cr in FY2018, Rs.10.72 Cr in FY2019 and Rs.11.16 Cr in FY2020 (Provisional). Subsequently, operating margins were at 9.95 percent in FY2018, 8.18 percent in FY2019 and 9.27 percent in FY2020 (Provisional). The improving operating profit was attributable to falling cotton prices and cost optimization measures. The net profit remained stable despite revenue fall in FY2020. Acuité believes that GSMPL's operating and net profit margins are sustainable over the medium term backed by efficient inventory management and no debt-funded capital expenditure plan in the near term.

- **Above-average financial risk profile**
  The financial risk profile of GSMPL remained above-average with moderate capital structure and debt protection metrics. GSMPL's net worth has been improving Y-o-Y on account of moderate net cash accruals generated over the years. The net worth of GSMPL stood at Rs.35.83 Cr as on March 31, 2020 (provisional) as against Rs.32.17 Cr as on March, 2019. Debt to Equity (Gearing) improved from 1.38 times as on March 31, 2019 to 1.26 times as on March 31, 2020 (provisional). Although, the debt levels increased marginally as on March 31, 2020 (provisional); the increase in net worth was much higher as on March 31, 2020 (provisional). Debt protection metrics are marked by moderate interest coverage ratio and Net cash accruals to total debt (NCA/TD) stood at 4.45 times and 0.18 times in FY2020 (provisional) as against 8.61 times and 0.19 times in FY2019, respectively. The interest coverage ratio deteriorated on account of increase in interest cost. Acuité believes that in the absence of any debt-funded capex, GSMPL financial risk profile is expected to remain above-average in the medium term.

Weaknesses

- **Moderate working capital cycle**
  GSMPL's working capital management is moderate marked by moderate gross current assets (GCA) days of 135 as on March 31, 2020 (Provisional) as against 107 days as on March 31, 2019. Cotton is generally procured during the season beginning from October to March to sustain the raw material requirement for upcoming 5-6 months until the start of the next season. Inventory days stood at 76 days as on March 31, 2020 (provisional) as against 55 days as on March 31, 2019. Debtor days stood at 25 days and 16 days as on March 31, 2020 (provisional) and as on March 31, 2019 respectively. The above are offset by creditor days of 44 days as on March 31, 2020 (provisional) and as on March 31, 2019. GSMPL has utilized 40 percent of its working capital facilities over the last six months ended in August 2020. Acuité believes that GSMPL's working capital cycle will remain moderate over the medium term.

- **Susceptible of operating margins to volatility in raw material prices**
  Raw cotton prices are highly volatile in nature and depends largely on factors like area under cultivation, monsoon, crop yield, international demand-supply and pricing and inventory carry forward of the previous year. Cotton being the major raw material of spinning mills, volatility in the prices of cotton impacts the profitability of the company. Further, the company operates in a highly competitive and fragmented cotton industry with several organised and unorganised players operating in the same industry. Acuité believes that GSMPL's EBITDA margins would remain susceptible to raw material price volatility and high inventory holding levels over the medium term.

Rating Sensitivity factors

- Higher-than-expected revenue and profitability
- Any further deterioration in working capital management leading to deterioration in financial risk profile and liquidity

Material Covenants: None

Liquidity Position: Adequate

GSMPL has adequate liquidity marked by moderate net cash accruals as compared to its maturing debt obligations, moderately utilized bank limits and moderate current ratio. GSMPL generated net cash accruals of Rs.7.89-8.02 Cr during the last three years through FY2018-20 vis-à-vis maturing debt obligations were in the range of Rs.3.73-4.76 Cr over the same period. The cash accruals are estimated to be around Rs.5.40-10.10 Cr. during FY2021-23 vis-à-vis repayment obligations in the range of Rs.5.00 Cr. to Rs.7.60 Cr. The current ratio stood moderate at 1.35 times as on March 31, 2020 (provisional). The working capital limits of the firm remained 40 percent utilised for the last six months ended in August, 2020. Acuité believes that the liquidity of the firm is likely to remain adequate over the medium term.

Outlook: Stable

Acuité believes that GSMPL will maintain a 'Stable' outlook over the medium term backed by its experienced management and long track record of operations. The outlook may be revised to 'Positive' in case of better-than-expected revenue and profitability margin or improvement in working capital management leads to better liquidity. Conversely, the outlook may be revised to 'Negative' in case of lower-than-expected revenue or profitability, or any further stretch in its working capital management leading to deterioration in its financial risk profile and liquidity position.

About the Rated Entity - Key Financials

	Unit	FY20 (Provisional)	FY19 (Actual)
Operating Income	Rs. Cr.	120.43	130.99
PAT	Rs. Cr.	3.66	4.02
PAT Margin	(%)	3.04	3.07
Total Debt/Tangible Net Worth	Times	1.26	1.38
PBDIT/Interest	Times	4..45	8.61

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

None

Any other information

None

Applicable Criteria

- Default Recognition – https://www.acuite.in/view-rating-criteria-52.htm
- Manufacturing Entities - https://www.acuite.in/view-rating-criteria-59.htm
- Application of Financial Ratios and Adjustments - https://www.acuite.in/view-rating-criteria-53.htm

Note on complexity levels of the rated instrument

https://www.acuite.in/criteria-complexity-55.htm

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr)	Ratings/Outlook
28-Sept-20	Cash Credit	Long Term	16.00	ACUITE BBB-/ Stable (Reaffirmed)
	Term Loan	Long Term	19.18	ACUITE BBB-/ Stable (Reaffirmed)
	Term Loan	Long Term	5.00	ACUITE BBB-/ Stable (Assigned)
	Term Loan	Long Term	7.69	ACUITE BBB-/ Stable (Reaffirmed)
	Term Loan	Long Term	0.91	ACUITE BBB-/ Stable (Assigned)
	Proposed Bank Facility	Long Term	0.53	ACUITE BBB- (Withdrawn)
05-Jul-19	Cash Credit	Long Term	16.00	ACUITE BBB-/ Stable (Reaffirmed)
	Term Loan	Long Term	23.10	ACUITE BBB-/ Stable (Reaffirmed)
	Term Loan	Long Term	9.15	ACUITE BBB-/ Stable (Reaffirmed)
	Proposed Term Loan	Long Term	0.53	ACUITE BBB-/ Stable (Reaffirmed)
02-May-18	Cash Credit	Long Term	16.00	ACUITE BBB-/ Stable (Reaffirmed)
	Term Loan	Long 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)

*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 I	Dec-2016	12.00	March 2024	19.18	ACUITE BBB-/ Stable (Reaffirmed)
Term Loan II	Aug-2020	9.25	July 2025	5.00	ACUITE BBB-/ Stable (Reaffirmed)
Term Loan III	June 2018	10.50	August 2028	7.69	ACUITE BBB-/ Stable (Reaffirmed)
Term Loan IV	April 2020	7.75	March 2021	1.60	ACUITE BBB-/ Stable (Reaffirmed)
Proposed bank facility	Not Applicable	Not Applicable	Not Applicable	0.21	ACUITE BBB-/Stable (Assigned)

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About Acuité Ratings & Research:
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