

Press Release

YSR Spinning And Weaving Mills Private Limited

June 27, 2017



Rating Assigned

Total Bank Facilities Rated*	Rs. 19.38 Cr.
Long Term Rating	SMERA BBB- / Outlook: Stable
Short Term Rating	SMERA A3

* Refer Annexure for details

Rating Rationale

SMERA has assigned long-term rating of '**SMERA BBB-**' (**read as SMERA BBB minus**) and short term rating of '**SMERA A3**' (**read as SMERA A three**) on the Rs. 19.38 crore bank facilities of YSR Spinning And Weaving Mills Private Limited. The outlook is '**Stable**'.

YSR Spinning and Weaving Mills Private Ltd (YSR) was incorporated in 1999 by Mr. Y Sridhara Reddy and family. The company manufactures cotton yarn at Guntur (Andhra Pradesh) and has an installed capacity of 26000 spindles.

Key Rating Drivers

Strengths

• Experienced management

The promoters, Mr Sridhara Reddy, Mr Srinivasa Reddy Pidaparthi, Mr Subbarao Dogiparthi and others have more than two decades of experience in the textile industry. The extensive experience has helped the company establish comfortable relations with customers and suppliers.

• Strong financial risk profile and comfortable liquidity

The strong financial risk profile is marked by low gearing, strong debt protection metrics and comfortable networth. The gearing stands at 1.02 times in FY2017 (Provisional) compared to 1.19 times in FY2016. The interest coverage is 2.49 times in FY2017 (Provisional), compared to 2.09 times in FY2016. The company has registered Net Cash Accruals to Total Debt of 0.16 times in FY2017 (Provisional) as against 0.11 times in FY2016. The networth stands at Rs 16.88 crore in FY2017 (Provisional) compared to Rs 15.75 crore in FY2016. SMERA has treated Rs 3.5 crore of unsecured loan from promoters and their relatives as quasi equity based on confirmation from the management that the amount would be retained in the business over the medium term. SMERA believes that the financial risk profile of the company would be sustained over the medium term backed by steady growth and consistent accruals. The company has comfortable liquidity marked by adequate net cash accruals of Rs 2.81 crore in FY2017(Provisional) compared to CPLTD of 1.28 crore. The bank facility utilisation (cash credit) has been 80 per cent in the last six months ended May 2017.

• Efficient working capital management

The efficient working capital management is marked by low working capital days of 61 in FY2017(Provisional) compared to 65 in FY2016 and 70 in FY2015. The inventory days are 51 in FY2017(Provisional) compared to 56 in FY2016 and 55 in FY2015. The company has managed its receivable cycle well which gets reflected in the debtor days of around 42 in FY2017(Provisional) and FY2016.

• Growth in revenue and improvement in margins

The company registered 7 per cent growth in revenue in FY2016. Revenue increased from Rs 62.51

crore in FY2015 to Rs 67.73 crore in FY2016. In FY2017 (Provisional), the company registered rapid growth of 20 per cent in revenue to Rs 80.74 crore. The growth in revenue is because of the expansion and modernisation which the company undertook in FY2011 and FY2015. In FY2011, the installed capacity increased from 4500 spindles to 26000 spindles. In FY2015 the company undertook modernization of machines and started with 80s count of cotton yarn that helped in reducing production costs. The operating margin improved to 6.40 per cent in FY2017 (Provisional) from 6 per cent in FY2016 while the net profit margin improved to 1.40 per cent in FY2017 (Provisional) from 0.49 per cent in FY2016.

Weaknesses

- **Susceptibility to fluctuations in raw material prices**

The margins are highly susceptible to changes in the prices of cotton. The price of cotton is fixed by the government through the Minimum Support Price (MSP). However, the purchase price depends on the prevailing demand -supply situation which restricts bargaining power with suppliers as well. Any adverse movement of cotton prices further impacts profitability.

- **Intense competition:**

The cotton industry continues to be competitive and fragmented with intense competition from organised as well as unorganised players.

Analytical Approach

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

Outlook: Stable

SMERA believes that the outlook on YSR's rated facilities will remain Stable over the medium term owing to its experienced management. The outlook may be revised to 'Positive' in case the company registers more than envisaged sales and profitability while efficiently maintaining its working capital cycle. Conversely, the outlook may be revised to 'Negative' in case of failure in achieving the envisaged revenue and profitability and if the working capital cycle gets stretched.

About the Rated Entity - Key Financials

For FY2015-16, YSR reported Profit after tax (PAT) of Rs.0.33 crore on operating income of Rs.67.73 crore as compared with PAT of Rs.0.29 crore on operating income of Rs.62.51 crore in FY2014-15.

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

None

Any other information

None

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>

Rating History (Upto last three years)

Not Applicable

***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	10.00	SMERA BBB- / Stable
Term loans	Not Applicable	Not Applicable	31-Mar-2022	7.44	SMERA BBB- / Stable
Proposed	Not Applicable	Not Applicable	Not Applicable	0.30	SMERA BBB- / Stable
Stand By Line of Credit	Not Applicable	Not Applicable	Not Applicable	1.50	SMERA A3
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	0.14	SMERA A3

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ABOUT SMERA

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