

Press Release

Power Spinning Mills

June 05, 2018



Rating Assigned

Total Bank Facilities Rated*	Rs. 13.00 Cr.
Long Term Rating	ACUITE BB- / Outlook: Stable
Short Term Rating	ACUITE A4

* Refer Annexure for details

Rating Rationale

Acuité has assigned long-term rating of '**ACUITE BB-**' (**read as ACUITE BB minus**) and short term rating of '**ACUITE A4**' (**read as ACUITE A four**) on the Rs.13.00 crore bank facilities of POWER SPINNING MILLS. The outlook is '**Stable**'.

Power Spinning Mills (PSM), a partnership firm based at Tamil Nadu was established in 2003 by Mrs. M. Murgaswamy, Mrs. P. Swaminathan, Mrs. R. Vasanthi and Mrs. B. Jayakavitha. PSM is engaged in manufacturing of grey cotton yarn (30's and 40's count). The firm occasionally sells grey fabrics. The firm has 15000 spindles which operate at 95 percent capacity with an output of 6000 kgs per day.

Key Rating Drivers

Strengths

- **Established presence in the yarn industry and experienced management**

PSM was established in 2003. Prior to establishing PSM, the partners were involved in cotton ginning (Power Cotton Ginning Mills) for over two decades. The partners have experience in the yarn industry for more than fifteen years. The firm has established healthy relationships with customers for more than 5 to 6 years.

- **Average financial risk profile**

PSM has a moderate financial risk profile marked by tangible net worth of Rs.16.75 crore as on 31 March, 2017 as against Rs.11.24 crore as on 31 March, 2016. The gearing stood comfortable at 0.85 times as on 31 March, 2017 as against 1.19 times as on 31 March, 2016. The debt of Rs.14.31 crore mainly consists of working capital borrowings of Rs.12.77 crore, term loans of Rs.1.18 crore and unsecured loans of Rs.0.36 crore as on 31 March, 2017. Interest Coverage Ratio (ICR) stood at 1.63 times for FY2017 as against 1.72 times in FY2016. Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood at 1.15 times as on 31 March, 2017 as against 1.45 times as on 31 March, 2016. Net Cash Accruals/Total Debt (NCA/TD) stood at 0.09 times as on 31 March, 2017 as against 0.11 times as on 31 March, 2016. Going forward, Acuité expects the financial risk profile to improve marginally in absence of major debt funded capex plans.

Weaknesses

- **Susceptibility to raw material price fluctuations and competition in the yarn industry**

The firm manufactures cotton yarn, the prices of which are highly volatile in nature. Any adverse change in the raw material prices will directly impact the profitability margins of the firm. PSM operates in a highly competitive and fragmented industry characterised by large number of organised players affecting margins.

- **Working capital intensive operations**

The operations are working capital intensive marked by high Gross Current Asset (GCA) of 278 days in FY2017 compared to 191 days in FY2016. The GCA days are mainly dominated by

inventory days of 238 in FY2017 compared to 130 in FY2016. The average cash credit utilisation stood at ~97 percent for the last six months ended February 2018. The debtor collection days reduced to 35 in FY2017 as compared to 54 in FY2016.

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of PSM to arrive at this rating.

Outlook: Stable

Acuité believes that PSM will maintain a 'Stable' business risk profile over the medium term from its experienced management. The outlook may be revised to 'Positive' in case of healthy growth in revenues while achieving sustained improvement in operating margins and working capital management. Conversely, the outlook may be revised to 'Negative' in case of decline in revenues or profit margins or deterioration in working capital management.

About the Rated Entity - Key Financials

	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	36.81	34.61	40.01
EBITDA	Rs. Cr.	3.14	3.50	4.19
PAT	Rs. Cr.	0.15	0.17	0.46
EBITDA Margin	(%)	8.53	10.11	10.47
PAT Margin	(%)	0.40	0.50	1.15
ROCE	(%)	8.01	9.36	25.00
Total Debt/Tangible Net Worth	Times	0.85	1.19	1.10
PBDIT/Interest	Times	1.63	1.72	1.73
Total Debt/PBDIT	Times	4.22	3.74	2.87
Gross Current Assets (Days)	Days	278	191	129

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

None

Any other information

None

Applicable Criteria

- Default Recognition -<https://www.acuite.in/criteria-default.htm>
- Manufacturing Entities -<https://www.acuite.in/view-rating-criteria-4.htm>
- Financial Ratios And Adjustments -<https://www.acuite.in/view-rating-criteria-20.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.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. Crore)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE BB- / Stable
Letter of credit	Not Applicable	Not Applicable	Not Applicable	3.00	ACUITE A4

Contacts

Analytical	Rating Desk
Suman Chowdhury President - Rating Operations Tel: 022-67141107 suman.chowdhury@acuite.in	Varsha Bist Manager - Rating Desk Tel: 022-67141160 rating.desk@acuite.in
Salome Farren Analyst - Rating Operations Tel: 022-67141164 salome.farren@acuiteratings.in	

About Acuité Ratings & Research:

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