

Press Release

Sri Rama Spin Cot

September 20, 2018

Rating Assigned



Total Bank Facilities Rated*	Rs.10.34 Cr.
Long Term Rating	ACUITE B / Outlook: Stable
Short Term Rating	ACUITE A4

* Refer Annexure for details

Rating Rationale

Acuité has assigned long term rating of '**ACUITE B** (**read as ACUITE B**) and short-term rating of '**ACUITE A4 (read as ACUITE A four)**' to the Rs.10.34 crore bank facilities of Sri Rama Spin Cot (SRSC). The outlook is '**Stable**'.

SRSC was established as a partnership firm in 2015 and commenced its operations in December 2016. The firm is promoted by Mr. Pachipulusu Raghava Rao who has more than four decades of experience in the Cotton industry and his sons, Mr. P Satish and P Vijay Shankar are the other partners of the firm having more than two decades of experience in cotton industry. SRSC is engaged in ginning and pressing of raw cotton to produce cotton lint and seeds. The manufacturing facility is located at Guntur (Andhra Pradesh). The plant is equipped with 24 ginning machines and a fully automatic pressing machine with a production capacity of 180 cotton bales per day.

Analytical Approach

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

Key Rating Drivers:

Strengths:

Extensive experience of the promoters in cotton ginning industry:

Established in 2015, the key promoters, Mr. Pachipulusu Raghava and his sons, Mr. P Satish and Mr. P Vijay Shankar have extensive experience in the cotton ginning business through their association with other firms involved in the same business sector. The promoters and their family members are in this line of business for over four decades. This has helped the firm to establish its position in the domestic market and enabled it to leverage its established relations with its suppliers and customers. Acuité believes that the firm is expected to benefit from the partners' established presence and the relationship with the stakeholders in maintaining its stable business risk profile over the medium term.

Favourable location of the plant:

The manufacturing unit of the firm has a location advantage by virtue of its presence in the cotton Producing belt of India i.e., Guntur, which helps in easy access to quality raw material- kappas.

Weaknesses:

Below Average financial risk profile:

The financial risk profile of the firm is below average marked by high gearing (debt-to-equity) high total outside liabilities to tangible net worth (TOL/TNW) and moderate debt protection metrics. Its gearing is marginally high at 7.42 times as on March 31, 2018 (Provisional) improved from 13.06 times in FY2017. TOL/TNW is high at 8.66 times March 31, 2018 (Provisional) as against 14.83 times in FY2017. The net worth is modest at Rs.1.34 crore as on 31 March, 2018 (Provisional). The debt protection metrics are moderate as interest coverage ratio (ICR) stood at 1.24 times and net cash accruals to total debt (NCA/TD) stood at 0.02 times in FY2018 (Provisional).

Acuité believes that the financial profile of the firm is expected to be at similar levels over the medium term in the absence of significant debt-funded capex plans and modest scale of operations.

Declined scale of operations with low profit margins:

The firm reported revenue of Rs.20.81 crore in FY2018 (Provisional), a declined from Rs.41.65 crore in 2017 due to raw material cost increased due to lower output with crops affected by pink bollworm attacks in some states and untimely rains in FY2018. The profit margins for the firm remained thin with an operating margin of 5.97 percent and net margin of 0.29 percent in FY2018 (Provisional) due to limited value addition to the products sold. The profit margins of the firm are exposed to the fluctuation in raw material prices, which depend upon factors like seasonality, monsoon condition, international demand and supply situation, export policy among others. Further, it is exposed to the regulatory risks as prices are decided through the minimum support price set by the Government.

Working capital intensive operations:

The firm's operations are working capital intensive marked by high Gross Current Assets (GCA) of 210 days in FY2018 (Provisional); they are expected to be at similar levels due to staggered deliverables to its clientele at around 147 days in FY2018 (Provisional). While inventory days over the past three years have been comfortable at about 30 days. The working capital limit of Rs.8.90 crore of cash credit has been utilised at about 95 percent over six months through August 2018 (Provisional). High GCA lead to high utilisation of its working capital limits with expected increase in the revenues at about 10-15 percent over the medium term. The operations will continue be working capital intensive.

Inherent risks being a partnership firm:

Being a partnership firm, it is vulnerable to capital withdrawals by the partners.

Outlook: Stable

Acuité believes that SRSC will maintain a 'Stable' outlook over the medium term backed by its partners' industry experience. The outlook may be revised to 'Positive' in case of significant growth in its revenues while sustaining the profitability and improving its working capital cycle. Conversely, the outlook may be revised to 'Negative' in case of higher-than-expected debt-funded capital expenditure leading to deterioration of its financial risk profile and liquidity.

About the Rated Entity - Key Financials

	Unit	FY18 (Provisional)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	20.81	41.65	12.40
EBITDA	Rs. Cr.	1.24	1.49	0.67
PAT	Rs. Cr.	0.06	0.04	0.10
EBITDA Margin	(%)	5.97	3.57	5.37
PAT Margin	(%)	0.29	0.10	0.82
ROCE	(%)	9.08	8.71	9.63
Total Debt/Tangible Net Worth	Times	7.42	13.06	17.14
PBDIT/Interest	Times	1.24	1.60	1.69
Total Debt/PBDIT	Times	8.00	7.85	14.18
Gross Current Assets (Days)	Days	210	112	339

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-17.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>
- Manufacturing Entities: <https://www.acuite.in/view-rating-criteria-4.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. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	8.90	ACUITE B/ Stable (Assigned)
Term Loans	Not Applicable	Not Applicable	Not Applicable	1.37	ACUITE B/ Stable (Assigned)
Proposed Long Term Loan	Not Applicable	Not Applicable	Not Applicable	0.04	ACUITE B/ Stable (Assigned)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	0.03	ACUITE A4 (Assigned)

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About Acuité Ratings & Research:

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