

Press Release

Sri Anantha Lakshmi Spinning Mills Private Limited

December 05, 2018

Rating Assigned



Total Bank Facilities Rated*	Rs. 25.00 Cr.
Long Term Rating	ACUITE BBB- / Outlook: Stable

* Refer Annexure for details

Rating Rationale

Acuite has assigned the long-term rating of **'ACUITE BBB-' (read as ACUITE triple B minus)** on the Rs.25.00 crore bank facilities of Sri Anantha Lakshmi Spinning Mills Private Limited. The outlook is **'Stable'**.

Sri Anantha Lakshmi Spinning Mills Private Limited (SAPL) was incorporated as a private limited company in 2004. The company was started by Mr. Samineni Koteswara Rao who is having an experience of over three decades in the textile industry. Located in Guntur, Andhra Pradesh, SAPL's spinning units currently have a combined installed capacity of 26000 spindles manufacturing cotton yarn (combed and carded) of counts 20s to 60s.

Analytical Approach

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

Key Rating Drivers

Strengths

• Established Track record of operations and experienced management

The Company is promoted by Mr. Samineni Koteswara Rao, who has around three decades of experience in the textile industry. Before incorporating the entity in 2004, promoters were involved in trading of cotton and ginning operations. The company was gradually expanded to the present total capacity of 26000 spindles at its plants in Guntur, Andhra Pradesh. The proximity to the cotton belt, and promoter's experience in textile industry has helped to build healthy relationship with its suppliers and customers, to ensure a steady raw material supply and large offtake. The company procures cotton (major raw material) from suppliers in Andhra Pradesh, Telangana and Gujarat regions. For FY2018, top ten customers of the company contributed ~67 percent of total revenues providing moderate customer concentration risk. Around 60 per cent of its revenues come from domestic market and the company also exports to South East Asian Countries such as China, Philippines and Bangladesh among others. Acuite believes that promoter's extensive experience in textile industry would aid the business risk profile of the company over the medium term.

• Moderate financial risk profile

The company's financial risk profile is marked by moderate capital structure and debt protection metrics. The gearing has improved to 1.05 times as on March 31, 2018 from 1.10 times as on March, 2017 supported by moderate cash accruals and repayment of term loans. Net worth is comfortable at Rs.32.69 crore in FY2018. Moderate net cash accruals and debt has led to moderate net cash accruals to total debt (NCA/TD) and interest coverage ratio of 0.12 times and 3.16 times in FY2018 vis-à-vis 0.11 times and 2.63 times in FY2017, respectively. The company's cash accruals are expected around Rs.6.00 to Rs. 9.00 crore against repayment obligations of about Rs.4.00 crores, which gives adequate cushion on its liquidity. Acuite believes that with moderate profitability margins, and no significant capex plans, the financial risk profile is expected to improve over the medium term.

Weaknesses

• Moderate working capital operations

The company has moderate working capital operations as evident from its Gross Current Assets (GCA) of 161 days as on March 31, 2018 as against 151 days as on March 31, 2017. The Company maintains an inventory of about three months, and majority of its receivables are against sight LC. Moderate working capital management has lead to moderate utilisation of its working capital limits at about 60 percent over the past six months ended Sept 2018. Cotton is available seasonally; however, manufacturing and sales operations are carried out throughout the year and hence, the operations continue to be working capital intensive over the medium term.

• Susceptibility of operating margins to volatility in raw material prices

Operating margins of cotton spinners is susceptible to changes in cotton prices, which are highly volatile and commoditised product. Any abrupt change in cotton prices due to supply-demand scenario, carry-over stocks in the overseas market, government regulations of changes in minimum support price (MSP) can lead to distortion in market prices and affect the profitability of players across the cotton value chain, including spinners. Operating margins varied from 7.5 per cent to 8.5 per cent over the years under review.

Outlook: Stable

Acuite believes that the company will maintain a 'Stable' outlook over the medium term from its promoter's industry experience. The outlook may be revised to 'Positive' in case of significant growth in its revenues while improving its profitability. Conversely, the outlook may be revised to 'Negative' in case of any stretch in its working capital operations or any significant debt-funded capex leading to deterioration of its financial risk profile and liquidity.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	104.55	101.02	89.18
EBITDA	Rs. Cr.	7.90	7.38	7.52
PAT	Rs. Cr.	2.38	1.73	1.87
EBITDA Margin	(%)	7.56	7.30	8.43
PAT Margin	(%)	2.28	1.72	2.09
ROCE	(%)	8.69	8.44	17.36
Total Debt/Tangible Net Worth	Times	1.05	1.10	0.94
PBDIT/Interest	Times	3.16	2.63	2.69
Total Debt/PBDIT	Times	4.27	4.42	3.51
Gross Current Assets (Days)	Days	161	151	132

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/criteria-manufacturing.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/criteria-fin-ratios.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
Term Loan	Not Applicable	Not Applicable	Not Applicable	20.00	ACUITE BBB- / Stable
Cash Credit	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE BBB- / Stable

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About Acuité Ratings & Research:

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