

Press Release

Sri Anantha Lakshmi Spinning Mills Private Limited

December 14, 2018

Rating Reaffirmed and Assigned



Total Bank Facilities Rated*	Rs. 55.32 Cr. (Enhanced from Rs.25.00 crore)
Long Term Rating	ACUITE BBB- / Outlook: Stable
Short Term Rating	ACUITE A3

* Refer Annexure for details

Rating Rationale

Acuite has reaffirmed the long-term rating of '**ACUITE BBB-**' (read as **ACUITE triple B minus**) to the Rs.25.00 crore bank facilities and assigned the long-term rating of '**ACUITE BBB-**' (read as **ACUITE triple B minus**) and short-term rating of '**ACUITE A3**' (read as **ACUITE A three**) to the Rs.30.32 crore bank facilities of Sri Anantha Lakshmi Spinning Mills Private Limited (SAPL). The outlook is '**Stable**'.

SAPL was incorporated as a private limited company in 2004 by Mr. Samineni Koteswara Rao. The company is engaged in manufacturing of cotton yarn (combed and carded) of counts 20s to 60s. Located in Guntur (Andhra Pradesh), SAPL's spinning units currently have a combined installed capacity of 26000 spindles 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 company in 2004, the promoter was involved in trading of cotton and ginning operations. The company has gradually expanded to the present total capacity of 26000 spindles at its plants in Guntur. 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 to ~67 percent of total revenues providing moderate customer concentration risk. Around 60 percent of its revenues comes 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 the 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 deteriorated to 1.28 times as on March 31, 2018 from 1.10 times as on March 31, 2017. However, the same would improve due to improving operating margins supported by captive wind mills installed by the company; the same would save around Rs.3.00 crore in power costs yearly. 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 (ICR) 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 to be around Rs.6.00 - 9.00 crore against repayment obligations of about Rs.4.00 crore, 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 led to moderate utilisation of its working capital limits at about 60 percent over the past six months ended September 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, and government regulations on 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 SAPL 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)

Date	Name of the Facilities	Term	Size of the Issue (Rs. Cr.)	Ratings/Outlook
05-Dec-2018	Term Loan	Long Term	20.00	ACUITE BBB- / Stable (Assigned)
	Cash Credit	Long Term	5.00	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. Crore)	Ratings/Outlook
Term Loan	Not Applicable	Not Applicable	Not Applicable	15.32	ACUITE BBB- / Stable (Reaffirmed)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE BBB- / Stable (Reaffirmed)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	25.00	ACUITE BBB- / Stable (Assigned)
Bills Discounting	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE A3 (Assigned)

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About Acuite Ratings & Research:

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