

Press Release

Sree Lalitha Parameswari Spinning Mills Private Limited



D-U-N-S® Number: 85-836-6714

April 01, 2019

Rating Assigned

Total Bank Facilities Rated*	Rs. 85.00 Cr.
Long Term Rating	ACUITE BBB- / Outlook: Stable
Short Term Rating	ACUITE A3

* Refer Annexure for details

Rating Rationale

Acuité has assigned long-term rating of '**ACUITE BBB-**' (**read as ACUITE BBB minus**) and short term rating of '**ACUITE A3**' (**read as ACUITE A three**) on the Rs. 85.00 crore bank facilities of Sree Lalitha Parameswari Spinning Mills Private Limited (SLPL). The outlook is '**Stable**'.

SLPL is a Guntur (Andhra Pradesh) based company incorporated in 2005. The company is engaged in the business of cotton spinning. The company currently operates 48,000 spindles. It manufactures 100% combed compact yarns usually used in premium shirting in the count of 40s and 60s. The company also manufactures yarn using Giza cotton - imported from Egypt. SLPL does 30 percent export business and 70 percent domestic business. It exports to countries such as Bangladesh, Italy and Germany.

Analytical Approach

Acuité has considered the standalone business and financial risk profile of SLPL to arrive at the rating.

Key Rating Drivers

Strengths

• Experienced management

The key promoters of the company have more than four decades of experience relating to cotton trading, spinning and ginning industry. Other Directors also have more than a decade of experience in similar line of businesses. The extensive experience of the promoters has helped the company establish good relationships with customers and suppliers. Good business relations over the years have helped the company develop a strong clientele of over 100 customers. The extensive experience of the promoters has helped SLPL develop long standing business relations with reputed clients including Welspun India Limited, Mafatlal Industries Limited and Donear Industries Limited. Acuité believes that experience of the promoters and directors will help the financial and business risk profile of the company in the near to medium future.

• Healthy financial risk profile

The financial risk profile is healthy marked by healthy net worth and debt protection measures and low gearing. The net worth of the company stood healthy at around Rs.59.18 crore as on 31 March, 2018 as against Rs.51.52 crore as on 31 March, 2017. The improvement in net worth is on account of equity infusion of Rs.2.77 crore by the promoters to support the incremental working capital requirements. The company has followed a conservative financial policy as reflected by peak gearing of 1.41 times over the last three years through 2017-18. The gearing of the company stood at 1.41 times as on March 31, 2018. Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood at 1.80 times as on 31 March, 2018 as against 1.04 times as on 31 March, 2017. This is on account of major capex undertaken by the company in FY2018. The healthy revenue levels coupled with stable operating margins have resulted in moderate debt protection measures. Interest Coverage Ratio (ICR) remained moderate at 3.20 times in FY2018 and 3.72 times in FY2017. Net Cash Accruals/Total Debt (NCA/TD) stood at 0.11 times as on 31 March, 2018 as against 0.12 times as on 31 March, 2017. Debt Service Coverage Ratio (DSCR) stood at 1.40 times in FY2018 as against 1.39 times in FY2017.

Acuité believes that the financial risk profile of SLPL will continue to remain moderate over the medium term on account of its improving scale of operations and conservative financial policy.

- **Proximity to raw material and location advantage**

The manufacturing facilities are located in Andhra Pradesh, which is one of the largest cotton producing belts in India, ensuring ready availability of raw materials. Further, SLPL has location advantage in terms of low logistic costs (both on the transportation and storage) and is eligible for various incentives by the state as well as central government, where it is entitled to receive interest subsidy, capital subsidy, and power subsidy.

Weaknesses

- **Susceptibility of margins to raw material price fluctuation**

Operating margins of cotton spinners are susceptible to changes in cotton prices, which are highly volatile and commoditized product. Any abrupt change in cotton prices due to supply-demand scenario, carry-over stocks in the overseas market and 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 14.00 per cent to 17.50 per cent over the years FY2016 - FY2018.

- **Working capital intensive operations**

The company has intensive working capital operations as evident from its Gross Current Assets (GCA) of 196 days as on March 31, 2018 as against 169 days as on March 31, 2017. The company maintains inventory of about three months. Intensive working capital operations have led to increased utilization of its working capital limits above 90 percent over the past six months ended January 2019. Cotton is available seasonally; however, manufacturing and sales operations are carried out throughout the year. The working capital operations are likely to be intensive in the medium term on account of stabilization of heavy capex carried out in FY2018.

Liquidity Position

SLPL has adequate liquidity marked by healthy net cash accruals to its maturing debt obligations. The company generated cash accruals of Rs.7.70 - 9.35 crore during the last three years through 2017-18, while its maturing debt obligations were in the range of Rs.4.50 – 7.80 crore over the same period. The cash accruals of the company are estimated to remain around Rs.10.90 – 18.90 crore during 2019-21 while its repayment obligations are estimated to be around Rs. 6.50 – 8.80 crore. The company's operations are working capital intensive as marked by gross current asset (GCA) of 196 days in FY2018. This has led to increased reliance on working capital borrowings, the cash credit limit in SLPL remains utilized at over 90 percent during the last 12 months period ended January 2019. The company maintains unencumbered cash and bank balances of Rs.0.22 crore as on March 31, 2018. The current ratio of the company stands healthy at 1.22 times as on March 31, 2018. SLPL is likely to incur capex of Rs.0.80 – 2.00 crore over the medium term which is likely to be funded by internal accruals. Acuité believes that the liquidity of the group is likely to remain adequate on account of healthy cash accruals over the medium term.

Outlook: Stable

Acuité believes that the outlook on SLPL will remain 'Stable' over the medium term. The outlook may be revised to 'Positive' in case the company registers significant increment in its revenue and profitability while improving its liquidity position. Conversely, the outlook may be revised to 'Negative' in case of deterioration in its financial risk profile and stretched working capital cycle.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	123.96	95.72	85.89
EBITDA	Rs. Cr.	18.19	14.19	14.72
PAT	Rs. Cr.	6.19	5.63	5.26
EBITDA Margin	(%)	14.67	14.82	17.14
PAT Margin	(%)	4.99	5.88	6.12
ROCE	(%)	12.41	13.62	29.59
Total Debt/Tangible Net Worth	Times	1.41	0.71	0.89
PBDIT/Interest	Times	3.20	3.72	3.28
Total Debt/PBDIT	Times	4.48	2.47	2.43
Gross Current Assets (Days)	Days	196	169	162

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

Not Applicable

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. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	30.00	ACUITE BBB-/ Stable (Assigned)
Term Loan	Not Applicable	Not Applicable	Not Applicable	44.96	ACUITE BBB-/Stable (Assigned)
Standby Line of Credit	Not Applicable	Not Applicable	Not Applicable	4.50	ACUITE A3 (Assigned)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	5.50	ACUITE A3 (Assigned)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	0.04	ACUITE A3 (Assigned)

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About Acuité Ratings & Research:

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