

Press Release

Sree Astalaxmi Spinning Mills Private Limited

May 09, 2019

Rating Assigned



Total Bank Facilities Rated*	Rs. 10.00 Cr.
Long Term Rating	ACUITE BBB- / Outlook: Stable

* Refer Annexure for details

Rating Rationale

Acuite has assigned long-term rating of '**ACUITE BBB-**' (read as **ACUITE triple B minus**) to the Rs. 10.00 crore bank facilities of Sree Astalaxmi Spinning Mills Private Limited (SAPL). The outlook is '**Stable**'.

SAPL, incorporated on 13 July, 2001, is engaged in the business of manufacturing of cotton yarn. The company is managed by Mr. Mahesh Kumar Khetan (Managing Director), Mr. Vikrant Kumar Khetan (Director), Mrs. Vidya Devi Khetan (Director) and Mrs. Kirti Khetan (Director). It has an operating capacity of 42000 spindles, manufactures cotton yarn of counts 40's to 70's.

Agrawal Ginning & Pressing Private Limited (AGPL), incorporated on May 19, 2008, is engaged in ginning of raw cotton. The company is managed by Mr. Mahesh Kumar Khetan, Mr. Vikrant Kumar Khetan and Mrs. Kirti Khetan. The company has two ginning and cotton oil units each, both of which are located at Adilabad (Telangana) and at Pandharkawda (Maharashtra) respectively. Cotton and oil units have a processing capacity of 300 bales and 100 tonnes per day, respectively.

Analytical Approach

Acuite has consolidated the business and financial risk profiles of AGPL and SAPL (referred to as Agrawal Group) to arrive at this rating. The consolidation is on account of common ownership and management, similar line of business and inter-company transactions. Extent of Consolidation: Full.

Key Rating Drivers

Strengths

• Comfortable financial risk profile

The group's financial risk profile is comfortable, marked by moderate gearing (debt-equity ratio), total outside liabilities to total net worth (TOL/TNW), and debt protection metrics though partly constrained by moderate net worth. Gearing is moderate at 1.58 times as on 31 March, 2018 as against 1.36 times as on 31 March, 2017. TOL/TNW is moderate at 2.05 times as on 31 March, 2018 as against 2.30 times as on 31 March, 2017. The gearing and TOL/TNW are about 1.2 and 1.55 times respectively for FY2019 on provisional basis. Net worth is modest at Rs. 27.14 crore as on 31 March, 2018. Of the total debt of Rs. 42.77 as on 31 March, 2018, long term debt constitutes Rs. 2.50 crore and short term debt of Rs.20.35 crore. The promoters on regular basis keep infusing funds by way of unsecured loans to support its regular on-going capex, and for working capital requirements; the outstanding balances are about Rs.18.97 crore as of March 31, 2018 against Rs.10.54 crore in FY2017. Debt protection metrics of interest coverage ratio and net cash accruals to total debt are comfortable at 5.54 times and 0.16 times in FY2018 as against 4.90 times and 0.18 times in FY2017, respectively. With annual expected cash accruals of about Rs.10-14 crore and repayment obligations of about Rs. 0.50-0.60 crore in the medium term, Acuite believes that the financial risk profile is expected to improve over the medium term.

• Established track record of operations and experienced management

Mr. Mahesh Kumar Khetan and Mr. Vikrant Kumar Khetan have been in the cotton business for more than three and two decades, respectively. Over a period, the group diversified and integrated its operations by foraying into ginning business and further to cotton oil business. This was to derive the synergies from the value chain. Further, its operations are geographically diversified across the cotton growing locations of Telangana and Maharashtra; this supports in healthy sourcing of raw material.

Also, the group on regular basis keep investing to enhance the production capacity. It has invested about Rs.14.00 crore over the past three years through FY2019; majorly funded by the promoters by way of unsecured loans. Regular expansion led to a moderate growth in revenues at a compound annual growth rate (CAGR) of about 14 per cent during FY2016-19 with a provisional revenue of about Rs.213 crore in FY2019, though they were fluctuating and moderate in the industry. Acuite believes that the group is expected to enjoy the promoters' financial flexibility, healthy relations with its stakeholders in improving its business risk profile over the medium term.

Weaknesses

• Working capital intensive nature of operations

The group has working capital intensive nature of operations marked by moderate Gross Current Asset (GCA) of 125 days in FY2018 as against 98 days in FY2017. The reason for increase in the same is due to increase in inventory days and debtor days to 83 days and 29 days in FY2018 as against 70 days and 21 days in FY2017, respectively. However, the reason for increase in inventory is due to procurement of raw cotton as it is a seasonal crop because of which the entities maintain an inventory of 2-3 months to meet the customers' demand. The manufacturing operations of cotton yarn are carried out throughout the year, though major raw material availability is seasonal leading to working capital intensive operations. This leads to full utilisation of its working capital limits during peak season, though moderate in other periods, partly supported by regular infusion of unsecured loans.

• Highly competitive and fragmented industry

Cotton, the primary raw material, is procured at MSP (Minimum Support Price) stipulated by the government. However, the selling price of the output depends on the prevailing demand-supply situation, thereby impacting the margins and profitability. Further, the company is exposed to agro climatic risks considering that cotton is an agro commodity; this leads to fluctuating margins. Operating margins of SAPL (on standalone basis) have oscillated in the range of 6.1 - 11.1 percent and AGPL had operating margins in the range of 1.1 - 2.0 percent over FY2016-18. Acuite believes that operating margins of the entire value chain - ginners and spinners continue to be exposed to the volatile raw material prices and impacts on profitability.

Liquidity Position:

Liquidity of the group is comfortable marked by moderate cash accruals against repayment obligations. It has reported cash accruals of Rs. 6.70 crore in FY2018. NCA is expected to be in the range of Rs.10.0 - 14.0 crore against the minimal repayment obligations of Rs.0.50 crore-Rs.0.60 crore over the medium term. The company has moderate working capital cycle marked by moderate GCA of 125 days in FY2018 and inventory of 83 days and is expecting to maintain the same over the medium term. Regular infusion of unsecured loans and seasonal operations lead to moderate utilisation of its bank lines at about 70-80 percent, though in peak season they are almost fully utilized. The group's current ratio is comfortable at 1.6 times as of March 31, 2018. The group undertakes regular capex of about Rs.2.0-4.0 crore. Acuite believes with the promoters' financial flexibility and moderate accruals to repayment obligations, the liquidity continues to be at comfortable levels over the medium term.

Outlook: Stable

Acuite believes that Agrawal group will maintain 'Stable' outlook in the medium term on account of long track record of operations and experienced management in the industry. The outlook may be revised to 'Positive' if the group registers higher than expected growth in its revenues while maintaining stable profitability and capital structure. Conversely, the outlook may be revised to 'Negative' in case of any further stretch in its working capital management or any significant withdrawal of unsecured loans or larger-than-expected debt-funded capex leading to deterioration of its financial risk profile and liquidity.

About the Rated Entity - Key Financials (Consolidation)

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	161.18	205.41	142.78
EBITDA	Rs. Cr.	9.54	7.22	6.71
PAT	Rs. Cr.	2.96	2.85	1.22
EBITDA Margin	(%)	5.92	3.52	4.70
PAT Margin	(%)	1.84	1.39	0.85
ROCE	(%)	10.01	11.73	15.29

Total Debt/Tangible Net Worth	Times	1.58	1.36	1.42
PBDIT/Interest	Times	5.54	4.90	3.59
Total Debt/PBDIT	Times	4.26	3.47	4.06
Gross Current Assets (Days)	Days	125	98	100

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. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE BBB- / Stable

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