

Press Release

Amman Spinning Mills

September 07, 2020



Rating Assigned

Total Bank Facilities Rated*	Rs. 11.34 Cr.
Long Term Rating	ACUITE BB-/ Outlook: Stable (Assigned)

* Refer Annexure for details

Rating Rationale

Acuité has assigned the long-term rating of '**ACUITE BB-**' (**read as ACUITE double B minus**) on the Rs.11.34 crore bank facilities of Amman Spinning Mills (ASM). The outlook is '**Stable**'.

Amman Spinning Mills (ASM) is a Coimbatore (Tamilnadu) based partnership firm established in 2005. ASM is engaged in manufacturing of cotton yarn and it has a manufacturing unit in Sultanpet, Coimbatore District, Tamilnadu. Currently, the firm has an installed capacity of 13,200 spindles and the manufacturing count ranging from 30-40s. The firm also owns two 64 KW windmills for captive use.

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of ASM to arrive at the rating

Key Rating Drivers

Strengths

• Experienced management

ASM was established as a partnership firm in 2005 and it is engaged primarily in the manufacturing of cotton yarn for nearly two decades. The firm is promoted by Mr. S. A. Mahalingam, Mr. S. A. Rajamanickam, Mr. S. D. Mantharachalam, Mr. S. D. Kumaravel, Mr. S. K. Balakrishnan, Mr. S. K. Govindaraj who have over two decades of experience in Cotton Yarn industry. The top management is ably supported by a well-qualified and experienced team of the second line of management. The promoter's experience in the cotton industry has helped the company build a healthy relationship with its suppliers and customers to ensure a steady raw material supply and repeat business.

Acuité believes that ASM is expected to enjoy the benefit of proximity to the cotton growing area along with the promoter's experience and local presence is expected to aid in improving its business risk profile over the medium term.

• Moderate financial risk profile

ASM's financial risk profile is moderate, marked by moderate Networth, moderate capital structure and comfortable debt protection metrics. The net worth of the ASM is moderate at Rs.12.57 crore as on March 31, 2020 (provisional) as against Rs.10.93 crore as on March 31, 2019. Its capital structure is moderate, marked by its gearing level at 0.83 times as on March 31,2020 (provisional) as against 0.82 times as on March, 2019. Further, its TOL/TNW is 1.04 times as on March 31, 2020 (provisional) as against 0.99 times as on 31 March, 2019. ASM's debt protection metrics are comfortably marked by The NCA/TD and interest coverage ratios for FY 2020 (Provisional) were moderate at 0.14 per cent and 2.28 times, respectively as against 0.21 per cent and 3.23 times in FY2019. ASM generated cash accruals of Rs.1.49-1.89 crore during the last three years ended through FY2020 (provisional), while its maturing debt obligations are Rs.0.75-0.95 crore during the same period. The cash accruals of the ASM are estimated to remain around Rs.1.35 crore – Rs. 1.50 crore during 2021-23, while its repayment obligations are estimated to be around Rs.1 crore over the same period.

Acuité believes that the financial risk profile of the firm is expected to remain moderate over the medium term on account of no significant capex plans over the medium term.

Weaknesses

- **Large working capital requirement:**

ASM's operations are working capital intensive in nature as reflected by its Gross Current Asset (GCA) days of around 352 days as on March 31, 2020 (Provisional) as against 158 days as on March 31, 2019. Deterioration in the GCA is owing to high inventory and receivable days. The company maintains an inventory of about 271 days as on March 31, 2020 (Provisional) as against 96 days as on March 31, 2019. Debtor days stood at 62 as on March 31, 2020 (provisional) as against 52 days as on March 31, 2019. On the other hand, the firm gets less credit of around 96 days on March 31, 2020 (Provisional) as against 32 days as on March 31, 2019 from its suppliers. Its working capital limits are utilised high at about 89 percent over the past six months ended June 2020.

Acuité believes that as the raw materials are seasonally available; however, manufacturing and sales operations are carried out throughout the year leading to working capital intensive operations.

- **Declined scale of operations**

The company's revenues are declined for the past three years from Rs.37.01 crore in FY2018 to Rs. 18.72 crore in FY2020 (provisional). Its capacity is modest with spindle count of 13,200. It incurred capex of about Rs7.95 crore over the past three years, primarily for captive power and machinery. The revenues are expected to be range bound of Rs.25-35 crore over the medium term. Improvement of revenues and profitability are key rating sensitivity factors over the medium term.

- **Risk of capital withdrawal**

ASM's constitution as a partnership firm is exposed to discrete risks, including the possibility of withdrawal of capital by the partners. Moreover, the partnership nature partially limits the flexibility to raise the funds vis-à-vis a limited firm.

Liquidity Position: Adequate

ASM has adequate liquidity marked by moderate net cash accruals to its maturing debt obligations. ASM has generated cash accruals of Rs.1.49-1.89 crore during the last three years ended through FY2020 (provisional), while its maturing debt obligations are Rs.0.75-0.95 crore during the same period. The cash accruals of the ASM are estimated to be around Rs.1.35 crore – Rs. 1.50 crore during 2021-23, while its repayment obligations are estimated to be around Rs.1 crore over the same period. The high reliance on working capital borrowings, leading to high utilisation of its working capital limits at 89 per cent during the last 6-month period ended June 2020. The current ratio of ASM is comfortable stood at 1.79 times as on March 31, 2020 (provisional). Acuité believes that the liquidity of the company is likely to remain Adequate over the medium term on account of cash accruals against the repayment obligations over the medium term.

Rating Sensitivities

- Significant improvement in scale of operations, while improving its profitability margins
- Any further large debt-funded capital expenditure, impacting the financial risk profile adversely.

Material covenants

None

Outlook: Stable

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

About the Rated Entity - Key Financials

	Unit	FY20 (Provisional)	FY19 (Actual)
Operating Income	Rs. Cr.	18.72	30.28
PAT	Rs. Cr.	0.05	0.24
PAT Margin	(%)	0.24	0.80
Total Debt/Tangible Net Worth	Times	0.83	0.82
PBDIT/Interest	Times	2.28	3.23

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-52.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-59.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.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	6.50	ACUITE BB-/Stable (Assigned)
Term Loans	30-06-2019	Not Applicable	30-11-2025	3.67	ACUITE BB-/Stable (Assigned)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	1.17	ACUITE BB-/Stable (Assigned)

Contacts

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About Acuité Ratings & Research:

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