

Press Release

Supriya Spinning Mills Private Limited

January 07, 2022

Rating Assigned



Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Ratings Loan	14.00		ACUITE A3+ Assigned
Bank Ratings Loan	46.00	ACUITE BBB Stable Assigned	
Total	60.00	-	-

Rating Rationale

Acuite has assigned its long term rating of '**ACUITE BBB**' (read as **ACUITE triple B**) and short term rating of '**ACUITE A3+**' (read as **ACUITE A three plus**) on the Rs.60.00 Cr bank facilities of Supriya Spinning Mills Private Limited (SSMPL). The outlook is '**Stable**'.

Rationale for rating assigned

The rating takes into account SSMPL's moderate business risk profile marked by experienced promoters, established track record in Andhra Pradesh and improvement in operating income in FY2022 on account of increase in trading activity. The rating also factors in its moderate financial risk profile marked by a moderate networth, improving gearing and moderate debt protection metrics. These strengths are partially constrained by its working capital operations marked by moderate GCA days, competitive environment in industry and inherent risk of susceptibility in raw material prices.

About the Company

Established in 2005 and based in Guntur, Andhra Pradesh, Supriya Spinning Mills Private Limited (SSMPL) is engaged in the manufacturing of cotton yarn and trading of cotton, cotton lint and cotton yarn. SSMPL is a closely held company, promoted by Mr. Kancharla Amar, Mr. Anjaneyulu Kancherla and other family members. SSMPL has an installed capacity of 31,582 spindles with almost 100 percent capacity utilization.

Analytical Approach

Acuite has considered the standalone business and financial risk profiles of the SSMPL to arrive at this rating. For the assessment of financial risk profile of the company, the unsecured loans (USL) to the extent of Rs.10.00 Cr from the promoter group have been treated as quasi equity as it is expected to remain in the business over a medium term. The USL from related parties are non-interest bearing.

Key Rating Drivers

Strengths

- Promoters' extensive experience in food processing industry; Established regional player in Andhra Pradesh**

SSMPL is promoted by Mr. Anjaneyulu Kancherla, Mr. Kancharla Amar and other family members. Mr. Anjaneyulu Kancherla has been associated with SSMPL since its inception; this has helped SSMPL to establish strong market presence in the state of Andhra Pradesh. Mr. Kancharla Amar looks after the day-to-day operations of SSMPL and is assisted by team of

experienced professionals down the line. Mr. Anjaneyulu has more than 45-years of experience in multiple businesses. Mr. Amar has more than 10 years of experience in textile industry. Therevenue of SSMPL has grown at a compound annual growth rate (CAGR) of ~14 per cent through FY2019-FY2021(Prov). The operating income has increased to Rs.180.57 Cr in FY2021 (Prov) from Rs.132.90 Cr in FY2020, further, SSMPL has achieved revenue of Rs.302.27 Cr for 9MFY2022. SSMPL operates at moderate profitability margins marked by operating margin (EBITDA) of 5.05 percent in FY2021 (Prov). SSMPL caters to the international customers by exporting cotton yarn and cotton lint to global players across Brazil, Vietnam, Bangladesh amongst others. The revenue mix as of FY2021(Prov) of SSMPL consists of revenue from manufacturing of Rs.122.06 Cr (67 percent) and revenue from trading of Rs.58.51 Cr (33 percent). Acuité believes that SSMPL will continue to derive benefits from its promoter's experience, its established presence and diversified geographical coverage providing healthy revenue visibility in medium term.

- **SSMPL's ability to sustain the revenue and profitability despite the impact of Covid-19 Pandemic**

The operations of SSMPL were marginally impacted during the nation-wide lockdown imposed to curb the spread of Covid-19 pandemic and resumed at desirable capacity thereafter. SSMPL is engaged in textile manufacturing industry. The operating income in FY2021 (Prov) has improved by nearly 35.87 percent against FY2020. SSMPL recorded net sales of Rs.180.57 Cr in FY2021 (Prov) against Rs.132.90 Cr in FY2020. The revenues were low in the Quarter 1 of FY2021 due to lockdown imposed by the government to curb the spread of Covid-19 pandemic. SSMPL was able to record absolute EBITDA of Rs.9.11 Cr in FY2021 (Prov) against Rs.7.78 Cr in previous year. In FY2022, SSMPL has recorded gross sales (Incl. GST) of Rs.286.47 Cr as on Nov'21 against Rs.85.92 Cr as of Nov'20 i.e. improvement by 233 percent. Acuité expects SSMPL to record healthy operating income in current year FY2022 on account of recovery in demand of products, increasing exports orders and increased trading of cotton lint.

- **Improvement in sales volume and realization in FY2021**

SSMPL is engaged in the manufacturing of cotton yarn and trading of cotton, cotton lint and cotton yarn. The growth driver for revenue in FY2021 were improvement in sales volumes and stable realizations. SSMPL sold 61.57 Lakh Kilo-gram (Kg) of cotton yarn in FY2021 against 51.02 Lakh Kg in previous year i.e. Year-on-Year (YoY) growth of 21 percent. On other hand, the sales volume of cotton lint stood at 48.07 Lakh kg in FY2021 against 29.99 Lakh in previous year i.e. 60 percent YoY growth rate. The realization of cotton yarn remained stable at Rs.189 per kg in FY2021 against Rs.192 per kg in previous year. Whereas, the realization of cotton lint improved to Rs.122 per kg in FY2021 against Rs.98 per kg in previous year i.e. improvement by 24 percent Y-o-Y. Acuité believes sustainability of volumes and realization would be key driver for healthy business and financial risk profile of SSMPL.

- **Capex plan underway in upcoming years**

SSMPL's management plans to take a decision regarding expansion during April, 2023, upon clarity on how the industry would progress during the ensuing cotton seasons and the outlook on their revenues and profitability. During FY2023, SSMPL plan to invest Rs.20 Cr - Rs.10 Cr unsecured loans from promoters and Rs.10 Cr through term loan from banking institution. Acuité believes capex underway would aid towards healthy business and financial risk profile of SSMPL.

- **Moderate debt protection metrics and capital structure**

SSMPL's financial risk profile is moderate, marked by a moderate network, improving gearing and moderate debt protection metrics. The EBITDA margins of SSMPL marginally deteriorated to 5.05 per cent in FY2021 (Prov) against 5.86 in FY2020. The deterioration is attributable to increase in business in trading segment with comparably lower margins than the manufacturing segment. Revenue from trading increased to Rs.58.51 Cr in FY2021 (Prov) against Rs.29.42 Cr in previous year. SSMPL's trading margins is in the range of 2-5 percent (based on cotton season), whereas manufacturing margins is in the range 6-9 percent based on count and value additions. The PAT margins of SSMPL has improved to 1.43 percent in FY2021 (Prov) in comparison to 0.86 percent in FY2020. The PAT margins in FY2021 was

improved on account of reduction in depreciation and finance cost during the period. The marginal improvement in profitability levels vis-à-vis decrease in the interest obligations has led to improvement in the debt protection metrics. The interest coverage ratio (ICR) and debt service coverage ratio (DSCR) stood at 2.61 times and 2.37 times respectively in FY2021 (Prov) as against 2.26 and 1.03 times respectively in the previous year.

The net worth of SSMPL stood at Rs.39.86 Cr as on 31 March, 2021 (Prov) as against Rs.37.28 Cr as on 31 March, 2020. The improvement is on account of moderate accretion of net profit in the reserves during the period. The gearing level (debt-equity) stands improved at 0.79 times as on 31 March, 2021 (Prov) as against 0.92 times as on 31 March, 2020, the improvement is on account of decrease in short term debt due to moderate utilization of working capital limits during the March'2021. TOL/TNW (Total outside liabilities/Total net worth) has marginally deteriorated and stands moderate at 1.15 times as on 31 March, 2021 (Prov) against 1.10 times in previous year. Moderate TOL/TNW is on account of presence of moderate leverage position of the SSMPL and increase in payables during the period.

The total debt of Rs.31.42 Cr as on 31 March, 2021 (Prov) consist of long-term debt of Rs.6.09 Cr, unsecured loans from promoters/directors of Rs.1.17 Cr, short term debt of Rs.24.10 Cr and maturing portion of long term borrowings of Rs.0.07 Cr. SSMPL is moderately conservative towards its leverage policy and has been funding the capital requirements through funds in form of quasi equity from the promoter group. The quasi equity stands at Rs.10.00 Cr as of March 31, 2021. NCA/TD (Net cash accruals to total debt) stands improved at 0.16 times in FY2021 (Prov) as against 0.12 times in FY2020. Acuité expects the financial risk profile to remain moderate over the medium to long term period on account of moderate capital structure and stable operations of SSMPL.

Weaknesses

- **Working capital operations marked by moderate GCA days**

SSMPL's working capital cycle is marked by moderate gross current assets (GCA) days in the range of 138-161 days over the last 3 years ending March 31, 2021(Prov). The GCA days are majorly marked by moderate inventory and debtor days. The improved GCA days of 138 days as on March 31, 2021 (Provisional) is on account of decrease in inventory days to 44 days from 76 days in previous year and presence of moderate debtors. The debtors have increased to Rs.31.85 Cr in FY2021 (Prov) against Rs.19.39 Cr in previous year on account of increase in scale of business and increased trading activity. The moderate GCA cycle has led to moderately utilization of around 78.62 per cent of fund based working capital requirement bank lines of Rs.30.00 Cr over the past 9 months ending November, 2021. The non-fund based working capital requirement bank lines of Rs.14.00 Cr were utilized at an average of 54.95 percent over the past 9 months ending November, 2021. The consolidated working capital limits of Rs.44.00 were utilized at an average of nearly 71.09 per cent for the 9 months ending November, 2021. Acuité believes that the operations of SSMPL will remain moderately working capital intensive on account of nature of the textile manufacturing industry.

- **High customer and supplier concentration risk in the revenue profile**

SSMPL procures the cotton lint from Cotton Corporation of India (CCI) and in and around Andhra Pradesh. The top 10 suppliers are contributing more than 85 per cent to the total purchases in FY2021. Besides, it can be observed that one of the single supplier i.e. Cotton Corporation of India (CCI) has been contributing more than 75 per cent of the total purchases. Sri N R K R Textiles Private Limited, is one of the major customer for cotton yarn of SSMPL contributing around 22 percent of total sales indicating moderate customer concentration risk in revenue profile. Acuité believes that there exists high supplier and customer concentration risk in the revenue profile of the company. However, the risk of concentration is mitigated to an extent on account of long standing relationship of the company and promoters with its major supplier and customers. SMPPL is aiming towards a diversified customer base by selling in regions within India as well as exports to various countries such as Brazil, Vietnam, Bangladesh etc.

- **Susceptible to volatility in raw material prices and regulatory risks**

SSMPL profitable margins are susceptible to fluctuations in the prices of major raw material i.e. Raw cotton. Cotton being a seasonal crop, the production of the same is highly dependent upon the monsoon. Thus, inadequate rainfall affects the availability of cotton in adverse weather conditions. Furthermore, any abrupt change in cotton prices due to supply-demand scenario and government regulations of changes in Minimum Support Price (MSP) can lead to distortion of prices and affect the profitability of players across the cotton value chain. Acuité believes that SSMPL's business profile and financial profile can be adversely impacted on account of presence of inherent risk of susceptibility of volatility in raw cotton prices, since the industry is highly commoditized.

Rating Sensitivities

Positive

- Higher-than-expected Improvement in the scale of operations and profitability as envisaged
- Sustainable improvement in Leverage and Solvency position of the company.
- Sustainable improvement in Gross current assets (GCA) days.
- Sustainable improvement in realization per unit of the products offered by the company.

Negative

- Any deterioration in working capital cycle and liquidity profile of the company.
- Any deterioration in Revenue profile and leverage position of the company.
- Any weakening of financial risk profile of the company.
- Any deterioration in volume and realization per unit of the products offered by the company.

Material covenants

None

Liquidity Position: Adequate

SSMPL's liquidity is adequate marked by modest generation of net cash accruals in FY2021 to its maturing debt obligations and low level of unencumbered cash and bank balance. SSMPL has generated cash accruals in the range of Rs.4.19-5.15 Cr during last three years ending FY2021(Prov) as against its long term debt obligations of Rs.0.07-3.98 Cr for the same period. SSMPL's working capital is moderate as evident from Gross Current Asset (GCA) of 138 days as on March, 2021(Prov) as compared to 161 days as on March, 2020. The current ratio stood at 1.76 times as on 31 March 2021(Prov) against 1.57 in previous year. The moderate GCA cycle has led to moderate utilization of around 71.09 per cent of consolidated working capital requirement bank lines of Rs.44.00 Cr over the past 9 months ending November, 2021. SSMPL maintained unencumbered cash and bank balances of Rs.0.02 Cr as on March 31 2021(Prov) against Rs.0.02 Cr in previous year. In addition to this, SSMPL has an investment in form of deposit worth Rs.1.39 Cr as margin money as on March 31, 2021.

Acuité believes that the liquidity of SSMPL to remain adequate on account of stable scale of operations and moderate capital structure. SSMPL is expected to generate adequate NCAs in the range of Rs.10.50-11.80 Cr. against modest CPLTD of Rs.0.07-Rs.4.50 Cr over the medium term.

Outlook: Stable

Acuité believes that SSMPL rating will maintain a 'Stable' outlook over 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 SSMPL registers sustainable improvement in sales volumes and realization per unit of the products offered leading to higher-than-expected revenues and profitability with improvement in financial risk profile. Conversely, the outlook may be revised to 'Negative' in case SSMPL registers lower-than expected revenues and profitability or any significant stretch in its working capital management or larger than-expected debt- funded capital expenditure leading to deterioration of its financial risk profile and liquidity.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 21 (Provisional)	FY 20 (Actual)
Operating Income	Rs. Cr.	180.57	132.90
PAT	Rs. Cr.	2.58	1.14
PAT Margin	(%)	1.43	0.86
Total Debt/Tangible Net Worth	Times	0.79	0.92
PBDIT/Interest	Times	2.61	2.26

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

Brickwork Ratings vide its press release dated December 10, 2021 had denoted the rating of Supriya Spinning Mills Private Limited (SSMPL) as "ISSUER NOT CO-OPERATING" on account of lack of adequate information required for monitoring of ratings.

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Entities In Manufacturing Sector - <https://www.acuite.in/view-rating-criteria-59.htm>
- Rating Process and Timeline: <https://www.acuite.in/view-rating-criteria-67.htm>
- Trading Entity: <https://www.acuite.in/view-rating-criteria-61.htm>
- Application Of 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:

Not Applicable

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Canara Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	20.00	ACUITE BBB Stable Assigned
Canara Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE BBB Stable Assigned
Canara Bank	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	14.00	ACUITE A3+ Assigned
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE BBB Stable Assigned
Canara Bank	Not Applicable	Working Capital Term Loan	26-10-2020	7.50	26-10-2024	6.00	ACUITE BBB Stable Assigned

Contacts

Analytical	Rating Desk
Aditya Gupta Vice President-Rating Operations Tel: 022-49294041 aditya.gupta@acuite.in	Varsha Bist Senior Manager-Rating Operations Tel: 022-49294011 rating.desk@acuite.in
Shivam Agarwal Analyst-Rating Operations Tel: 022-49294065 shivam.agarwal@acuite.in	

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