

## Press Release

### Supriya Spinning Mills Private Limited

March 08, 2023



## Rating Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	48.50	ACUITE BBB   Stable   Reaffirmed	-
Bank Loan Ratings	11.50	-	ACUITE A3+   Reaffirmed
<b>Total Outstanding Quantum (Rs. Cr)</b>	60.00	-	-

## Rating Rationale

Acuite has reaffirmed 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 reaffirmation:

The rating reaffirmation takes into account SSMPL's moderate business risk profile supported by experienced promoters, moderate financial risk profile and moderately managed working capital cycle. The operating income of the company surged in FY22 to Rs.430.51Cr as against Rs.180.61Cr during FY21, primarily on account of increased trading activity due to opportunistic market conditions. The revenues are expected to moderate to previous levels in FY23. The company has recorded a sales of Rs. Rs.154.84Cr in 9MFY23 and is expected to close the year in the range of Rs.175-190 Cr. The company during the year completed its capex incurred towards modernising its plant and machinery, the benefits of which are expected to accrue over the medium term. Going forward, SSMPL's ability to improve its scale of operations and profitability margins while maintaining its capital structure and maintaining its working capital cycle will remain a key rating monitorable.

## 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 Kancharla and other family members. SSMPL has an installed capacity of 31,582 spindles with almost 100 percent capacity utilization.

## Analytical Approach

Acuite has considered standalone business risk profile and financial risk profile of SSMPL to arrive at this rating.

## Key Rating Drivers

## Strengths

### **Promoters' extensive experience in Yarn manufacturing 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. The operating income of the company has improved significantly during FY22 as SSMPL has reported revenue of Rs.430.51Cr during FY22 against Rs.180.61Cr during FY21. This significant improvement in revenue is majorly contributed by trading segment. The revenue mix as of FY22 of SSMPL consists of revenue from manufacturing of Rs.182.35Cr (42 percent) and revenue from trading of Rs.248.15 Cr (58 percent). The company has recorded a sales of Rs. Rs.154.84Cr in 9MFY23 primarily from manufacturing segment and is expected to close the year in the range of Rs.175-190 Cr. The trading activity surged in FY2022 primarily due to favourable market driven opportunities. In FY2023, the company has focused on manufacturing and has completed its ongoing capex in October, 2022 towards modernisation of its plants and machineries, the benefits of which are expected to accrue over the medium term.

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.

**Moderate financial risk profile:** The financial risk profile of the company is moderate marked by moderate net worth along with improved debt to equity and debt protection metrics during FY22. Net worth of SSMPL was improved to Rs.43.07Cr as on March 31, 2022 against Rs.29.90Cr during FY21. Net worth was improved by healthy accretions of profits to the reserves. Gearing stood at 1.16 times as on March 31, 2022. Interest coverage ratio and Debt service coverage ratio improved to 4.94times and 4.16times respectively as on March 31, 2022. Debt to EBITDA improved significantly to 2.59times as on March 31, 2022 from 4.81times during previous year. This significant improvement in Debt protection metrics and leverage level is attributable by the healthy increase in absolute EBITDA to Rs.18.86Cr in FY22 from Rs.8.33Cr in the previous year. Financial risk profile is expected to remain moderate by the end of FY23 with estimated drop of absolute EBITDA to historical ranges of Rs.8.5cr to Rs.11Cr. The Interest coverage and debt service coverage are expected to be around 3-3.30times and 1.75-1.85 times respectively by the end of FY23. Debt to EBITDA is expected to be upwards of 4 times by end of FY23.

## Weaknesses

### **Working capital intensive nature of operations:**

The working capital management of the company is efficient marked by Gross Current Asset days (GCA) at 69days during FY22 against 130 days during FY21. This healthy improvement in GCA days in FY22 is attributable by improved scale of operations. The debtor days as stood at 36 days for FY22 and creditor days are low at 10 days in FY22.

It is expected that SSMPL's working capital cycle will moderate by end of FY23 with estimated GCA days of ~131days. Debtor days are expected to be in the range of 33 days to 40 days for FY23. The moderation in GCA days is estimated to be driven by increasing inventory days which would range within 70-80 days by year end.. The bank limits have been utilised at an average of 73 percent during past 12 months ending November, 2022. Acuite believes that elongation in the working capital cycle will be a key monitorable aspects.

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

SSMPL profitability 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

- Sustainable improvement in Gross current assets (GCA) days.
- Sustainable improvement in Leverage and Solvency position of the company.

### Material covenants

None

### Liquidity : Adequate

Liquidity position of SSMPL is adequate marked by sufficient Net Cash Accruals (NCA's) to repay the debt obligations. The company has net cash accrual of Rs.15.50 Cr in FY22 against their debt repayment obligations of 0.75Cr for the same period. SSMPL is estimated to have NCA's in the range of Rs.6.5 to Rs.7.5Cr against repayment obligations in the range of Rs. 1.90 Cr to Rs.2.10Cr in the medium term. Bank limits have been utilized at an average of 73percent in the past 12 months ending November, 2022. SSMPL had low level of unencumbered cash and bank balances of Rs.0.22Cr as on March 31, 2022 and current ratio stood at 1.80 times for FY22.

### 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 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	430.51	180.61
PAT	Rs. Cr.	13.17	2.61
PAT Margin	(%)	3.06	1.45
Total Debt/Tangible Net Worth	Times	1.16	1.39
PBDIT/Interest	Times	4.94	2.47

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

Brickworks has migrated the ratings of SSMPL to Issuer Non Cooperative (INC) during 10-12-2021. Currently, rating of SSMPL is BWR BB- as on 1-12-2022 and continued to NCI.

ICRA has migrated its rating on SSMPL to ICRA B/A4 (Issuer Non Cooperative) during 15-11-2017 and rating is continued to be INC as on 25.02.2022

### Any other information

None

### Applicable Criteria

- Default Recognition :- <https://www.acuite.in/view-rating-criteria-52.htm>
- Rating Process and Timeline: <https://www.acuite.in/view-rating-criteria-67.htm>
- Manufacturing Entities: <https://www.acuite.in/view-rating-criteria-59.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

In order to inform the investors about complexity of instruments, Acuite has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on [www.acuite.in](http://www.acuite.in)

### Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
07 Jan 2022	Proposed Bank Facility	Long Term	10.00	ACUITE BBB   Stable (Assigned)
	Cash Credit	Long Term	10.00	ACUITE BBB   Stable (Assigned)
	Letter of Credit	Short Term	14.00	ACUITE A3+ (Assigned)
	Cash Credit	Long Term	20.00	ACUITE BBB   Stable (Assigned)
	Working Capital Term Loan	Long Term	6.00	ACUITE BBB   Stable (Assigned)

## Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
HDFC Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	40.00	ACUITE BBB   Stable   Reaffirmed
HDFC Bank Ltd	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	Simple	11.50	ACUITE A3+   Reaffirmed
HDFC Bank Ltd	Not Applicable	Working Capital Term Loan	Not available	Not available	Not available	Simple	2.83	ACUITE BBB   Stable   Reaffirmed
HDFC Bank Ltd	Not Applicable	Working Capital Term Loan	Not available	Not available	Not available	Simple	5.67	ACUITE BBB   Stable   Reaffirmed

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### About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI) for Bank Loan Ratings under BASEL-II norms in the year 2012. Acuité has assigned ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

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