Press Release

Supriya Spinning Mills Private Limited
June 05, 2024
Rating Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	48.50	ACUITE BBB | Negative | Reaffirmed | Stable to Negative	-
Bank Loan Ratings	11.50	-	ACUITE A3+ | Reaffirmed
Total Outstanding Quantum (Rs. Cr)	60.00	-	-

Rating Rationale

Acuité has reaffirmed its long-term rating of **'ACUITE BBB' (read as ACUITE t riple 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 revised to '**Negative**' from **'Stable'**.

Rationale for rating reaffirmation and negative outlook:
The reaffirmation of rating and revision in outlook considers the substantial decline in operating performance of Supriya Spinning Mills Private Limited (SSMPL) and subsequent decline in its financial risk profile. In FY2023, the company's revenue declined to Rs.201 Cr. along with a decline in profitability margins compared to anomaly observed in FY2022. This decline was due to minimal trading activity, as the cotton candy rates declined sharply during the year. Further, in FY2024 the revenue is estimated to decline in the range of Rs.150-155 Cr. The non availability of some portion of production capacity due its modernization work continuing beyond expected timeline along with the shift in production to finer counts yarn from coarser counts is estimated to have influenced the revenue for FY2024. However, this shift is expected to improve the operating profitability for FY2024 due to its higher price realisations.. In addition, the company's increased reliance on fund-based working capital limits has led to deterioration in financial risk profile when compared to historic levels. Going forward, SSPML's ability to scale up operations while improving its operational profit margin will be 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 Kancherla and other family members. SSMPL has an installed capacity of 31,582 spindles with almost 100 percent capacity utilization.

Unsupported Rating

Not Applicable

Analytical Approach

Acuite has considered standalone business risk profile and financial risk proile od 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.

Moderate financial risk profile:

The financial risk profile of the company remained moderate in FY24, marked with moderate net worth, moderate gearing levels and debt protection metrics. The net worth of the company has declined to Rs.39.95 Cr. as of March 31, 2023 from Rs.43.07 Cr. as of March 31, 2022 due to deduction of prior period item worth Rs.4.24 Cr. in FY2023. The gearing deteriorated marginally to 1.64 times as of March 31, 2023 from 1.16 times of March 31, 2022 due to decline in net worth coupled by increase in total debt which consist of long-term debt of Rs.6.34 Cr, unsecured loans of Rs.18.82 Cr. and short-term debt of Rs.40.37 Cr. Total outside Liabilities/Tangible Net Worth (TOL/TNW) deteriorated to 2.28 times as of March 31, 2023 against 1.45 times as of March 31, 2022. Interest coverage ratio (ICR) and debt service coverage ratio (DSCR) stood at 2.37 times and 1.45 times respectively, as of March 31, 2023 against 4.94 times and 4.16 times respectively, as of March 31, 2022. Debt to EBITDA deteriorated to 9.00 times as of March 31, 2023 from 2.59 times as of March 31, 2022. However, the deterioration in few metrics is majorly attributable to reduced absolute operating profit level.. Going forward, gearing and debt protection metrics are expected to improve on account of improvement in net worth and no plans for major debt-funded capex.

Weaknesses

Decline in scale of operations:

SSMPL has reported revenue of Rs.201.49 Cr. during FY2023 by posting a negative growth rate of 53 percent on previous year's revenue of Rs.430.51 Cr. The company minimized the trading activity during FY2023 on account of unfavourable market conditions led to decline in revenue for the year. However, the revenue is estimated to decline further in FY2024 in the range of Rs.150-155 Cr. due to non-availability of capacity and shift in production to compact yarn. The company has undertaken capex during FY2023, towards expansion of blow room capacity and modernisation of machinery (change of ring frames) to comply with the compact yarn production. However, an unforeseen delay in delivery of machinery coupled with change in product to compact yarn is expected to influence the revenue for FY2024. The operating profit margin of the company stood at 3.49 percent in FY2023 as against 4.34 percent of FY2022, further it is estimated to improve in the range of 7-7.5 percent due better realizations for compact yarn during the year. Going forward, SSMPL aims to return to revenue levels of Rs.180-200 Cr. from FY2025 onwards, as the entire production capacity will be available throughout the year. Additionally, the company's inventory, stocked up during the last quarter of FY2024 when candy rates were Rs.55,000-57,000 per candy, will play a role. Further, in Q1FY2025, candy rates are projected to be in the range of Rs.64,000-67,000 per candy, which is expected to positively impact operating profitability.

Moderate working capital operations:

Working capital operations of the company are moderately intensive, as evident from the gross current assets (GCA) of 181 days in FY2023 against 69 days in FY2022. The elongation in GCA days is due to the stretch in inventory days, which mostly consist of raw materials (cotton). The season for cotton is between the months of October and March, so the group stocks up cotton in the last quarter of the financial year, resulting in a higher inventory-holding period of 121 days in FY2023. Debtor days stood at 38 in FY2023, against 36 days in FY2022. The company's reliance on bank limits remained moderately high, as reflected by an average utilisation of 82 percent in the past 12 months ending March 2024. The creditor days of the company stood at 53 in FY2023, against 10 days in FY2022. Acuité believes that the working capital cycle will continue to appear moderately intensive over the medium term due to cyclical nature of the cotton industry.

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

- Improvement in scale of operations with sustainable improvement in operating profit margins.
- Any elongation in working capital operations leading to deterioration of liquidity profile.

Liquidity Position : Adequate

Liquidity position of the company is adequate as reflected from sufficient Net cash accruals (NCA) against the debt repayment obligations. The company has registered NCA of Rs.4.21 Cr. during FY2023 against the maturing debt obligations of Rs.1.95 Cr. The company has low unencumbered cash and bank balances of Rs.0.16 Cr. Average utilization of the fund based working capital limits stood moderately high at 82 percent for the past 12 months period ending March, 2024. Going forward, company is expected to generate cash accruals in the range of Rs.6-10 Cr. over the medium term, while repayment obligations are expected to be in the range of Rs.2.00-Rs.4 Cr. for the same period. Acuite believes that the liquidity position will continue to remain adequate on the back of expected sufficient accruals generation to its maturing repayment obligations.

Outlook: Negative

Acuite has revised the outlook to 'Negative' on account of significant decline in scale of operations along with deterioration in financial risk profile compared to historic figures. The rating may be 'downgraded' if SSMPL registers lower-than expected growth in revenue along with profitability or any further infusion of higher than expected debt impacting the financial risk profile. The outlook may be revised to 'Stable' if the company registers improvement in revenue along with operating profit margins.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 23 (Actual)	FY 22 (Actual)
Operating Income	Rs. Cr.	201.49	430.51
PAT	Rs. Cr.	1.13	13.17
PAT Margin	(%)	0.56	3.06
Total Debt/Tangible Net Worth	Times	1.64	1.16
PBDIT/Interest	Times	2.37	4.94

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

Not applicable

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
• 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, Acuité 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**

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
08 Mar 2023	Cash Credit	Long Term	40.00	ACUITE BBB | Stable (Reaffirmed)
	Letter of Credit	Short Term	11.50	ACUITE A3+ (Reaffirmed)
	Working Capital Term Loan	Long Term	5.67	ACUITE BBB | Stable (Reaffirmed)
	Working Capital Term Loan	Long Term	2.83	ACUITE BBB | Stable (Reaffirmed)
07 Jan 2022	Cash Credit	Long Term	20.00	ACUITE BBB | Stable (Assigned)
	Cash Credit	Long Term	10.00	ACUITE BBB | Stable (Assigned)
	Letter of Credit	Short Term	14.00	ACUITE A3+ (Assigned)
	Proposed Long Term Bank Facility	Long Term	10.00	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 avl. / Not appl.	Cash Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	40.00	ACUITE BBB | Negative | Reaffirmed | Stable to Negative
HDFC Bank Ltd	Not avl. / Not appl.	Letter of Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	11.50	ACUITE A3+ | Reaffirmed
Not Applicable	Not avl. / Not appl.	Proposed Long Term Bank Facility	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	4.20	ACUITE BBB | Negative | Reaffirmed | Stable to Negative
HDFC Bank Ltd	Not avl. / Not appl.	Working Capital Term Loan	Not avl. / Not appl.	Not avl. / Not appl.	07 Jul 2027	Simple	2.83	ACUITE BBB | Negative | Reaffirmed | Stable to Negative
HDFC Bank Ltd	Not avl. / Not appl.	Working Capital Term Loan	Not avl. / Not appl.	Not avl. / Not appl.	07 Dec 2024	Simple	1.47	ACUITE BBB | Negative | Reaffirmed | Stable to Negative

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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.