

Press Release

Saranya Spinning Mills Private Limited

April 12, 2022



Rating Assigned

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	102.00	ACUITE BBB- Stable Assigned	-
Bank Loan Ratings	3.00	-	ACUITE A3 Assigned
Total Outstanding Quantum (Rs. Cr)	105.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has assigned its long-term rating of '**ACUITE BBB-**' (read as **ACUITE triple B Minus**) and short term rating of '**ACUITE A3**' (read as **ACUITE A three**) on the Rs.105.00 Cr bank facilities of Saranya Spinning Mills Private Limited (SSMPL). The outlook is '**Stable**'.

The rating takes into account SSMPL's moderate business risk profile marked by experienced promoters, established track record, integrated nature of operations and expected healthy improvement in operating income of over 50 percent in FY2022. The rating also factors in its above-average financial risk profile marked by a moderate network, leveraged capital structure 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

Incorporated in 1995 by Mr. Ashok Kumar, Saranya Spinning Mills Private Limited manufactures blended yarn and blended fabric and made-ups. The company has manufacturing plants at Ponneri, Namakkal (Tamil Nadu). The company has a capacity to produce yarn of 7,518 metric tons per annum with 12,000 spindles, 5 Vortex machines, and 5 air jet spinning machines. It has 54 airjet looms for own production and 116 looms for Job work production (weaving plant) to produce 20 lakh meters capacity (mts) per month. SSMPL also has a capacity produce 4, 50, 000 PCs made-ups per annum. The company mainly produces blended yarns of 30-60 counts. The plant has a captive power plant of 2.5 mega-watt (MW) capacity. Mr. Ashok Kumar and Mrs. Revathi are the directors of the Company.

Analytical Approach

Acuite has considered the standalone business and financial risk profiles of SSMPL to arrive at the rating.

Key Rating Drivers

Strengths

Established presence and diversified revenue base

SSMPL has an established presence in the textile industry spanning more than two decades and key promoter Mr. Ashok Kumar (Managing Director) has more than two decades of experience in the textile industry resulting in long relationships with suppliers and customers, driving repeat business. Further, SSMPL's diversified product base comprising cotton and various blends in the viscose yarn in the counts ranging from 30's to 60's, provides operational flexibility. Acuité believes that SSMPL will continue to benefit from the extensive experience of its promoters, and established relationships with clients will improve its business risk profile over the medium term.

Expected Increase in Revenue

The rating assigned takes cognizance of the substantial growth expected in the operating income and stability in operating margins over the medium term supported by favourable demand conditions and enhanced capacity levels. The company's performance improved significantly in the recent quarters. SSMPL is likely to register a healthy revenue growth of more than 50%, according to 11M provisional financials, SSMPL reported revenue of Rs. ~173 Cr and expected to report Rs.180-185 Cr for FY22. SSMPL's revenue declined 23 % yoy to Rs.125.45 Cr in FY21 (FY20: 164.45 Cr) owing to the outbreak of Covid-19. Despite the decline in revenue, the EBITDA margins of the company improved to 13.09 per cent in FY2021 against 9.34 percent in FY2020. The improvement is attributable to favorable revenue mix and a reduction in the percentage of raw material consumed to 54% in FY21 (FY20: 58%) and a rise in the realisation per unit. Acuité believes that improvement of revenues and profitability are the key rating sensitivity factors in improving its business and financial risk profile over the medium term.

Integrated nature of operations

SSMPL's operations are integrated across the spinning and the weaving segments, with the overall value addition supported by a specialty yarn manufacturing unit established for captive consumption at its weaving facility. This diversified product mix supports the operating performance of the company to an extent and limits the impact of slowdown in any one segment on the overall earnings, as seen over the years.

Above-average financial risk profile

SSMPL's financial risk profile is above-average, marked by a modest network, high gearing (debt-to-equity), and modest debt protection measures. SSMPL's network has remained modest at around Rs.34.07 Cr as on March 31, 2021 as against Rs.32.06 Cr as on March 31, 2020. The network levels have remained modest due to modest scale of operations and modest operating margins, which has resulted in limited accretion to reserves over the last three years through FY 2021. The company has followed an aggressive financial policy in the past, the same is reflected through its peak gearing and total outside liabilities to tangible network (TOL/TNW) levels of 2.41 times and 2.63 times as on March 31, 2021 vis-à-vis 2.32 times and 2.94 times respectively as on March 31, 2020. The company incurred capex of Rs.36 Cr over the last three years to expand its scale of operations. The moderate profitability levels coupled with moderate debt levels has led to moderate debt protection measures. The NCA/TD and interest coverage ratio for FY 2021 were moderate at 0.10 times and 2.52 times, respectively vis-à-vis 0.12 times and 2.32 times. Acuité believes that with moderate accruals and no significant debt-funded capex plans, the financial risk profile is expected to be above average over the medium term.

Weaknesses

Working capital intensive nature of operations

SSMPL's operations are working capital intensive in nature as reflected by its gross current asset (GCA) days of around 167-210 days during last 3 years through FY2021. The company

maintains an inventory of about 62 to 99 days and gives credit period of 34 to 84 days to its customers during last 3 years through FY2021. Its creditor's days stood at 30-61 days during last 3 years through FY2021. SSMPL's working capital limits highly utilised at 94 percent over the past 12 months ended February 2022. As the raw materials are seasonally available; however, manufacturing and sales operations are carried out throughout the year leading to working capital intensive operations throughout the period. Acuité believes that the working capital cycle will continue to look intensive over the medium term on account of business cycle of cotton industry.

Susceptibility to volatility in raw material prices and supplier concentration risk

The prices of viscose staple fibre (VSF) are volatile owing to fluctuations in wood pulp prices. Any steep increase in raw material prices that cannot be fully passed on to customers will affect profitability. However, strong operational capability and healthy diversification in clientele mitigate this risk. The SSMPL sources majority of raw material from Grasim Industries Ltd and has limited bargaining power as Grasim has an established market position in the viscose fibre segment. Though there has been no instance of shortage in supply by Grasim, risks related to supplier concentration will prevail. SSMPL profitable margins are susceptible to fluctuations in the prices of Cotton being a seasonal crop, the production of the same is highly dependent upon the monsoon. 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.

ESG Factors Relevant for Rating

Not Applicable

Rating Sensitivities

- Significant improvement in scale of operations while maintaining profitability margins
- Any large debt-funded capital expenditure, resulting in deterioration of financial risk profile
- Any further deterioration in working capital management

Material covenants

None

Liquidity Position: Adequate

SSMPL Liquidity is adequate with moderate cash accruals to its repayment obligations and high working capital intensive nature of operations. SSMPL has generated cash accruals of Rs.8.00 to 10.50 Cr during the last three years through 2019-21, while its maturing debt obligations were in the range of Rs.1.50 Cr-4.00 Cr during the same period. SSMPL has generated cash accruals of Rs.13 Cr to 16 Cr during the last three years through 2022-24, while its maturing debt obligations were in the range of Rs.11-14 Cr during the same period. The average fund-based working capital utilization stood at 94 percent for the past 12 months ended February 2022. It has maintained unencumbered cash and bank balances Rs.5.41 Cr and the current ratio stood at 1.23 times as on March 31, 2021. Acuite believes that the liquidity of the SSMPL is likely to remain adequate over the medium term on account of moderate cash accrual as against its repayments.

Outlook: Stable

Acuité believes that SSMPL will maintain 'Stable' outlook over 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 Company registers higher-than-expected growth in its revenues and profitability or further improves its capital structure and working capital management. 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 in its financial risk profile and liquidity position.

Other Factors affecting Rating

Not Applicable

Key Financials

Particulars	Unit	FY 21 (Actual)	FY 20 (Actual)
Operating Income	Rs. Cr.	125.45	164.45
PAT	Rs. Cr.	2.00	1.88
PAT Margin	(%)	1.60	1.14
Total Debt/Tangible Net Worth	Times	2.41	2.32
PBDIT/Interest	Times	2.52	2.32

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

SSMPL has not cooperated with India Ratings, which has classified the company as non-cooperative through a release dated March 16, 2022. The reason provided by India Rating is non-furnishing of information for monitoring of ratings.

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.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

<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
Indian Bank	Not Applicable	Bills Discounting	Not Applicable	Not Applicable	Not Applicable	3.00	ACUITE A3 Assigned
Indian Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	40.00	ACUITE BBB- Stable Assigned
Indian Bank	Not Applicable	Covid Emergency Line.	Not Applicable	Not Applicable	Not Applicable	9.20	ACUITE BBB- Stable Assigned
Indian Bank	Not Applicable	Covid Emergency Line.	Not Applicable	Not Applicable	Not Applicable	9.51	ACUITE BBB- Stable Assigned

Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	0.30	ACUITE BBB- Stable Assigned
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	1.70	ACUITE BBB- Stable Assigned
Indian Bank	Not Applicable	Term Loan	Not available	Not available	Not available	7.66	ACUITE BBB- Stable Assigned
Indian Bank	Not Applicable	Term Loan	Not available	Not available	Not available	33.63	ACUITE BBB- Stable Assigned

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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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