



Press Release
GAJAVELLI SPINNING MILLS PRIVATE LIMITED
July 28, 2023
Rating Assigned

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	100.00	ACUITE BB+ Stable Assigned	-
Total Outstanding Quantum (Rs. Cr)	100.00	-	-

Rating Rationale

Acuite has assigned its long term rating of '**ACUITE BB+**' (read as **ACUITE Double B Plus**) on the Rs.100.00 Cr bank facilities of Gajavelli Spinning Mills Private Limited (GSMPL). The outlook is '**Stable**'.

The rating relies on the moderate business risk profile, which is supported by the promoters' extensive experience, long track record of operations, the moderate financial risk profile, and the working capital that is effectively managed in addition to adequate liquidity. Due to elevating trading activity spurred on by opportunistic market dynamics, operating revenue increased significantly in FY22. In FY23, the revenues should normalise at their prior levels. These strengths are offset by susceptibility of profitability to volatility in cotton prices and competitive nature of industry.

About the Company

Gajavelli Spinning Mills Private Limited (GSMPL) was incorporated on 25th April 2006 with a registered office at Guntur, Andhra Pradesh. Mr. G. Venkateswara Rao and Mr. G. Poornachandra Rao are the founder directors of the company. The company is engaged in the processing of cotton bales to cotton yarn at its manufacturing unit at Chebrolu, Guntur district, Andhra Pradesh. The company is equipped with automated yarn manufacturing machines with 35,184 spindles to manufacture yarn counts ranging from 20s to 60s both in Carded and Combed yarns. GSMPL is directed by Mr. Gajavelli Venkateswararao, Mr. Gajavelli Nageswara Rao and others.

Analytical Approach

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

Key Rating Drivers

Strengths

Experienced Management with established track record of operations

The promoters of the company have over two decades of experience in the cotton industry. The company benefits from the promoters' understanding of the dynamics of the industry and established relationships with customers. Operations of the company has improved significantly during FY22 as GSMPL has reported revenue of Rs.642.29 Cr during FY22 against Rs.198.13 Cr during FY21 as the trading activity surged in FY2022 primarily due to favourable

market driven opportunities. This significant improvement in revenue is majorly contributed by trading segment. The revenue mix as of FY22 of GSMPL consists of revenue from manufacturing of Rs.188 Cr (29 percent) and revenue from trading of Rs.454 Cr (71 percent). In

FY2023, the Company focussed on manufacturing and the same was reflected in the operating income which stood at Rs.182.79 Cr (Prov). The revenue was moderated in FY23 due to lower opportunities for trading due to high cotton prices.

Acuité believes that GSMPL will continue to derive benefits from its promoter's experience, its established presence in the industry and diversified clientele base.

Moderate Financial Risk Profile

The company's financial risk profile is marked by moderate net worth, gearing and strong debt protection metrics. The tangible net worth of the company increased to Rs.55.01 Cr as on March 31, 2022, from Rs.37.80 Cr as on March 31, 2021, due to accretion of reserves. Gearing of the company stood at 1.09 times as on March 31, 2022 as against 1.69 times as on March 31, 2021. The Total Outside Liability/Tangible Net Worth (TOL/TNW) stood at 1.63 times as on March 31, 2022 as compared to 1.95 times in the previous year. The Interest Coverage Ratio stood at 6.86 times as on March 31, 2022. Debt Service Coverage Ratio at 2.78 times as on March 31, 2022. However, the coverage ratio is expected to witness moderation on account of moderation in the earnings profile, going forward. Net Cash Accruals/Total Debt (NCA/TD) stood at 0.43 times as on March 31, 2022 as against 0.14 times as on March 31, 2021. Further, NCA/TD stood at 0.11 times as on March 31, 2023.

Acuite believes that the financial risk profile is expected to remain moderate going forward on account of softening of Cotton prices from Jan 2023 and improved off-take of Yarn.

Efficiently managed working capital cycle

The working capital management of the company is efficient marked by Gross Current Asset days (GCA) at 59 days as on March, 2022 as against 125 days as on March, 2021. This healthy improvement in GCA days in FY22 is attributable by decrease in the level of other Current Assets which mainly consists of the recovered amount from cotton corporation of India in FY22. However, debtor days stood at 30 days as on March, 2022 as against 8 days as on March, 2021. The Inventory days stood at 23 days as on March, 2022 as against 18 days as on March, 2021. As cotton is a seasonal crop and procurement season lasts from October to March, the company needs to stock up the inventory during such period. This has led to rising inventory levels.

Acuite believes that GSMPL's working capital cycle will moderate going forward with estimated GCA days of 173 days as on March, 2023. Debtor days are expected to be in the range of 40 days to 43 days for FY23. The moderation in GCA days is estimated to be caused by increasing inventory days and debtors' days.

Weaknesses

Susceptibility of profitability to volatility in cotton prices

The cotton yarn industry's profitability margins are highly correlated with fluctuations in raw material prices. Furthermore, the prices of key raw material - cotton - are highly volatile. The operating margin of GSMPL stood at 4.38 percent in FY22 vis-à-vis 5.36 percent in FY21. The decrease in margin is mainly due to surge in price of cotton. Moreover, 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. The margins stood at 4.92 percent in FY23 (Prov) The increase in margins is due to the comparative decrease in the raw material, manufacturing and other costs. PAT Margin stood at 3.70 percent in FY23 (Prov) vis-à-vis 3.19 percent in FY22.

Exposure to intense competition in the cotton yarn industry

The cotton yarn industry is highly commoditized. As a result, no single player can influence prices. The high degree of fragmentation and commoditized nature has caused intense competition among spinning companies. Entry barriers in cotton business are low on account of limited capital and technology requirements and low differentiation in end product. This leads to intense competition and limits players' pricing power, resulting in low profitability. Since cotton is an agricultural commodity, its availability is limited and primarily depends on the monsoon.

Rating Sensitivities

- Sustainable improvement in their operating Income
- Sustainable improvement in Leverage and Solvency position of the company.

Material covenants

None

Liquidity Position

Adequate

Liquidity position of GSMPL is adequate marked by sufficient Net Cash Accruals (NCA's) to repay the debt obligations. The company had NCA's of Rs.26.14 Cr in FY22 against their debt repayment obligations of Rs.6.52Cr for the same period. Going forward, the Company is estimated to have a NCA of Rs.6.29 Cr in FY23 (Prov) against their debt repayment Rs. 4.88 Cr over the same period. The fund based bank limits have been utilized at an average of 31 percent in the past six months ending April, 2023. GSMPL had low level of unencumbered cash and bank balances of Rs.0.22 Cr as on March 31, 2022. The current ratio stood at 1.64 times as on FY22.

Outlook: Stable

Acuité believes that GSMPL 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 GSMPL 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. Changes in Credit metrics will be key monitorable. Conversely, the outlook may be revised to 'Negative' in case GSMPL 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.	642.29	198.13
PAT	Rs. Cr.	23.75	6.32
PAT Margin	(%)	3.70	3.19
Total Debt/Tangible Net Worth	Times	1.09	1.69
PBDIT/Interest	Times	6.86	3.10

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

None

Any other information

None

Applicable Criteria

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

Rating History :

Not Applicable

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Punjab National Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	50.00	ACUITE BB+ Stable Assigned
Punjab National Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	30.00	ACUITE BB+ Stable Assigned
Punjab National Bank	Not Applicable	Covid Emergency Line.	Not Applicable	Not Applicable	Not Applicable	Simple	3.11	ACUITE BB+ Stable Assigned
Punjab National Bank	Not Applicable	Covid Emergency Line.	Not Applicable	Not Applicable	Not Applicable	Simple	4.70	ACUITE BB+ Stable Assigned
Not Applicable	Not Applicable	Proposed Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	4.17	ACUITE BB+ Stable Assigned
Punjab National Bank	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	0.53	ACUITE BB+ Stable Assigned
Punjab National Bank	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	7.49	ACUITE BB+ 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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