

January 27, 2014

Facilities	Amount (Rs. Crore)	Rating
Cash Credit	30.00	SMERA BBB-/Stable (Assigned)
Term Loan	12.89	SMERA BBB-/Stable (Assigned)

SMERA has assigned a long-term rating of '**SMERA BBB-**' (read as SMERA triple B minus) to the Rs.42.89 crore bank facilities of Prassanna Spinning Mills Private Limited (PSMPL). The outlook is '**Stable**'. The rating is supported by the revival in the company's revenues and profit margins in FY2012-13 (refers to financial year, April 01 to March 31). The rating is also supported by the company's comfortable coverage indicators and experienced management. The rating favourably factors in the group support available to the company. However, the rating is constrained by the company's high leverage, working capital-intensive operations and susceptibility to volatility in raw material prices.

PSMPL, established in 2006, is a Tamil Nadu-based company engaged in manufacturing of cotton yarn and fabric. PSMPL's revenues increased from Rs.82.93 crore in FY2011-12 to Rs.152.82 crore in FY2012-13 due to recovery in demand for cotton yarn. Moreover, the company reported operating profit of Rs.10.30 crore and PAT of Rs.4.63 crore on operating income of Rs.105.13 crore during April 2013 to September 2013. PSMPL's operating profit margin increased from 0.22 per cent in FY2011-12 to 13.92 per cent in FY2012-13 due to decline in raw material cost.

PSMPL is a part of the Sri Shanmugavel Group of Mills, which is one of the largest textile groups in South India. Sri Shanmugavel Group of Mills, established in 1981, comprises 11 companies engaged in manufacturing of cotton yarn, knitted fabric and woven fabric. PSMPL benefits from its group's established market presence and long-standing relationships with customers and suppliers. PSMPL also benefits from its experienced management. Mr. P. S. Veluswamy, director of PSMPL and founder of the Sri Shanmugavel Group of Mills, has around three decades of experience in the textile industry. Mr. S. D. Rathinasabapathy, managing director of PSMPL, has around two decades of experience in the textile industry.

PSMPL's profit margins are exposed to volatility in cotton prices. The company's leverage is high at 5.62 times as on March 31, 2013. However, the company's long-term debt (of Rs. 65.10 crore as on March 31, 2013) includes interest-free unsecured loans of Rs. 18.35 crore from group entities and directors. Further, PSMPL has comfortable coverage indicators with net cash accruals to total debt (NCA/total debt) ratio of 0.23 times, interest coverage ratio of 3.64 times and cash debt service coverage ratio (cash DSCR) of 1.67 times in FY2012-13.

PSMPL's operations are working capital-intensive. The company's average utilisation of working capital limit stood at 88 per cent during April 2013 to October 2013. PSMPL availed an adhoc limit

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of Rs.15.00 crore in November 2013; however, the company plans to utilise the facility from February 2014.

### Outlook: Stable

SMERA believes the outlook on PSMPL's rated facilities will remain stable over the medium term on account of the company's experienced management and strong group support. The outlook may be revised to 'Positive' in case the company maintains strong growth in revenues and profit margins while attaining a comfortable capital structure. Conversely, the outlook maybe revised to 'Negative' in case of deterioration in the company's capital structure or in case of a steep decline in the company's revenues and profit margins.

### About the company

PSMPL, incorporated in 2006, is a Tamil Nadu-based company promoted by Mr. P. S. Veluswamy, Mr. C. Kandaswamy, Mrs. R. Geetha and Mr. S. D. Rathinasabapathy. PSMPL is engaged in manufacturing of cotton yarn and fabric. Cotton yarn contributes around 70% and fabric around 30% to the revenue. PSMPL has a manufacturing unit in Dindigul (Tamil Nadu), with an installed capacity of 40,800 spindles. The company manufactures ~55 lakh kilogram of cotton yarn per annum (in three shifts per day). PSMPL outsources manufacturing of fabric.

PSMPL is a part of the Sri Shanmugavel Group of Mills, one of South India's largest textile groups comprising 11 companies engaged in manufacturing of cotton yarn, knitted fabric and woven fabric. The group's installed capacity includes ~5 lakh spindles, 12,500 rotors, 230 looms and 216 knitting machines. Moreover, the group has ~300 windmills, with an aggregate power generation capacity of 175.5 MW.

For FY2012–13, PSMPL reported PAT of Rs.5.73 crore on operating income of Rs.152.82 crore, as compared with net loss of Rs 3.04 crore on operating income of Rs.83.11 crore for FY2011–12. The company's net worth stood at Rs.10.79 crore as on March 31, 2013, as compared with Rs.5.06 crore a year earlier.

### Contact List

Media/ Business Development	Analytical Contacts	Rating Desk
Mr. Virendra Goyal, VP, SME – Sales Tel :+91-44-49074501 Cell : +91 9930074009 Email: <a href="mailto:virendra.goyal@smera.in">virendra.goyal@smera.in</a> Web: <a href="http://www.smera.in">www.smera.in</a>	Mr. Umesh Nihalani Head, Corporate Ratings Tel: +91-22-6714 1106 Email: <a href="mailto:umesh.nihalani@smera.in">umesh.nihalani@smera.in</a>	Tel: +91-22-6714 1170 Email: <a href="mailto:ratingdesk@smera.in">ratingdesk@smera.in</a>

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