February 11, 2015

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

SMERA has reaffirmed the long-term rating of '**SMERA BBB-' (read as SMERA triple B minus)** on the Rs.42.89 crore bank facilities of Prassanna Spinning Mills Private Limited (PSMPL). The outlook is **'Stable'**. The rating draws comfort from the healthy growth in revenues reported by the company. The rating is also supported by the company's comfortable coverage indicators and experienced management. However, the rating is constrained by the company's high leverage and working capital-intensive operations. The rating factors in risks related to the debt-funded capex planned by the company. The rating is also constrained by the susceptibility of the company's profit margins to volatility in raw material prices.

Update

PSMPL's revenues have increased from 152.82 crore in FY2012–13 (refers to financial year, April 01 to March 31) to Rs.213.01 crore in FY2013–14 on account of increase in offtake of yarn by merchant exporters. The company registered gross sales of Rs.113.79 crore (provisional) during April 2014 to November 2014. PSMPL's operating margins are highly susceptible to volatility in raw material prices. The company's operating profit margin declined from 13.92 per cent in FY2012–13 to 9.61 per cent in FY2013–14 on account of increase in raw cotton prices. PSMPL's debt-equity ratio remains high at 3.91 times as on March 31, 2014, as compared with 5.62 times a year earlier. The company's long-term debt (of Rs.58.52 crore as on March 31, 2014) includes interest-free unsecured loans of Rs.17.50 crore from group entities and directors. The company plans to undertake capex of Rs.12.44 crore towards purchase new machineries. The aforementioned capex will be funded through debt of ~Rs.10.57 crore and promoters' funds of Rs.1.87 crore. PSMPL's interest coverage ratio is comfortable at 3.46 times in FY2013–14. The company's utilisation of cash credit limit is moderate at ~85 per cent during July 2014 to November 2014.

PSMPL ceases to be a part of the Sri Shanmugavel Group after the retirement of Mr. P. S. Veluswamy and Mr. C. Kandaswamy in FY2013–14. However, the company will continue to benefit from the operational and financial support provided by the group.

Outlook: Stable

SMERA believes the outlook on PSMPL's rated facilities will remain stable over the medium term. The company will continue to benefit from its experienced management. The outlook may be revised to 'Positive' in case the company registers sustained growth in revenues and profit margins while achieving comfortable financial risk profile. The outlook maybe revised to 'Negative' in case of deterioration in the company's capital structure, or in case of 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. In FY2013–14, Mr. P. S. Veluswamy and Mr. C. Kandaswamy retired from the company. The overall operations of the company are currently managed by Mr. S. D. Rathinasabapathy.

PSMPL undertakes manufacturing of cotton yarn and fabric. The company derives ~70 per cent of its total revenues from sale of cotton yarn, while sale of fabric accounts for 30 per cent of the total revenues. PSMPL has a manufacturing unit in Dindigul (Tamil Nadu), with installed capacity of 40,800 spindles. The company manufactures ~71 lakh kilograms of cotton yarn in FY2013-14 (in three shifts per day). PSMPL outsources manufacturing of fabric.

For FY2013–14, PSMPL reported profit after tax (PAT) of Rs.4.19 crore on operating income of Rs.213.01 crore, as compared with PAT of Rs.5.73 crore on operating income of Rs.152.82 crore in FY2012–13. The company's net worth stood at Rs.14.98 crore as on March 31, 2014, as compared with Rs.10.79 crore a year earlier.

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