



SMERA RATINGS LIMITED

Prassanna Spinning Mills Private Limited (PSMPL)

*Rating
Rationale*

February 18, 2016

Facilities	Amount (Rs. Crore)	Rating
Term Loan	12.89	SMERA BBB-/Stable (Reaffirmed)
Cash Credit	45.00	SMERA BBB-/Stable (Reaffirmed; Enhanced from Rs. 30.00 crore)
Term Loan (Fresh)	18.65	SMERA BBB-/Stable (Assigned)

SMERA has reaffirmed the long-term rating of '**SMERA BBB-**' (read as **SMERA triple B minus**) on the Rs.42.89 crore bank facilities and assigned a long-term rating of '**SMERA BBB-**' to the Rs.33.65 crore bank facilities of Prassanna Spinning Mills Private Limited (PSMPL). The outlook is '**Stable**'. The rating continues to draw comfort from the company's healthy net cash accruals, comfortable coverage indicators and experienced management. However, the rating is constrained by the working capital-intensive operations and debt funded capex plan. The rating is also constrained by the decline in revenues and profitability on account of volatile cotton and yarn prices.

Update

PSMPL's revenues have declined from Rs.213.01 crore in FY2013-14 (refers to financial year, April 01 to March 31) to Rs.181.90 crore in FY2014-15 on account of low sales realisations. The company registered gross sales of Rs.85.76 crore (provisional) during April 2015 to September 2015. PSMPL's operating profit margin declined to 7.56 per cent in FY2014-15 from 9.61 per cent in FY2013-14 on account of volatile raw material prices and increasing cost of repairs and maintenance. Its debt-equity ratio remained low at 1.25 times as on March 31, 2015 (after treating unsecured interest free loans of Rs.22.03 crore as quasi equity). However, the company has undertaken capex of Rs.25.00 crore towards purchase of new machinery to be funded through debt of ~Rs.18.65 crore and promoters' funds of Rs.6.35 crore. SMERA believes that the gearing will deteriorate with addition of debt. The interest coverage ratio was comfortable at 2.20 times in FY2014-15 and the net cash accruals stood at around Rs.8.15 crore in FY2014-15 for debt repayment of around Rs.5.55 crore. The company's average utilisation of cash credit limit was high at ~95 per cent during July 2015 to November 2015.

Rating Sensitivity Factors

- Ability to scale up operations and profitability
- Maintaining comfortable capital structure
- Efficient working capital management

Disclaimer: A SMERA rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. SMERA ratings are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, SMERA, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. SMERA is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind arising from the use of its ratings. SMERA ratings are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website (www.smera.in) for the latest information on any instrument rated by SMERA.



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Outlook: Stable

SMERA believes that 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' if the company registers sustained growth in revenues and profit margins while achieving a comfortable financial risk profile. The outlook may be revised to 'Negative' in case of deterioration in the capital structure or steep decline in the revenues and profit margins.

About the Company

PSMPL, incorporated in 2006, is a Tamil Nadu-based company promoted by Mrs. R. Geetha and Mr. S. D. Rathinasabapathy. The company manufactures cotton yarn and fabric at its manufacturing unit in Dindigul, Tamil Nadu which has an installed capacity of 40,800 spindles. In FY2014-15 the company manufactured ~63 lakh kilograms of cotton yarn. PSMPL outsources manufacturing of fabric. While the company generates around 70 per cent of revenues from sale of cotton yarn, fabric sale accounts for 30 per cent. The overall operations are managed by Mr. S. D. Rathinasabapathy.

For FY2014-15, PSMPL reported profit after tax (PAT) of Rs.3.38 crore on operating income of Rs.181.90 crore, as compared with PAT of Rs.4.19 crore on operating income of Rs.213.01 crore in FY2013-14.

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