

Press Release

Prassanna Spinning Mills Private Limited (PSMPL)

May 04, 2017

Rating Reaffirmed

Total Bank Facilities Rated*	Rs.96.54 Cr (Enhanced from Rs.76.54 Cr)
Long Term Rating	SMERA BBB-/Stable (Reaffirmed)

**Refer Annexure for details*

Rating Rationale

SMERA has reaffirmed the long term rating on the Rs.84.94 crore bank facilities to '**SMERA BBB-' (read as SMERA triple B minus)** and assigned rating of **SMERA BBB-/Stable (read as SMERA triple B minus)** on the Rs.11.60 cr bank facility of Prassanna Spinning Mills Private Limited (PSMPL). The outlook is '**Stable**'.

PSMPL, incorporated in 2006, is a Tamil Nadu-based company engaged in the manufacture of cotton yarn and fabric. The ratings are reaffirmed on account of established track record of the promoter in the textile industry and efficient working capital management. The rating also factors in the improvement expected in operational metrics in FY2017 on account of the modernisation initiatives undertaken in FY2016. However, the ratings are constrained by the moderate financial risk profile and susceptibility of margins to fluctuations in cotton prices.

The company posted revenue of Rs. 167.95 cr in FY2015-16 (as against Rs.181.90 crore in FY2014-15). The decline in revenues is primarily on account of drop in the realisations. This also resulted in decline in operating margins to 4.61 per cent in FY2015-16 from 7.56 per cent in FY2014-15.

However, the revenue for nine months ended December, 2016 (provisional) is Rs.154.31 cr , an improvement of ~18 per cent when compared to revenue of Rs.130 cr for nine months ended December, 2015. Further, the operating margins also improved to ~6.80 per cent during the said period. The improvement is attributed to the increase in realisations per unit owing to improved operational efficiency after the installation of autoconer machines.

List of key rating drivers and their detailed description

Strengths:

Experienced management

Mr. S. D. Rathinasabapathy, (Managing Director) possesses an experience of around two decades in textile industry. SMERA believes that the extensive experience of the management in the textile industry has helped establish healthy relations with customers and suppliers.

Efficient working capital management

The company's GCA stood at around 93 days in FY2016, a decline from 140 days in FY2015 mainly on account of reduction in the inventory holding to 46 days in FY2016 from 97 days in FY2015. The

inventory days depend on the expected movements in the price of cotton. Further, the average cash credit utilisation stood moderate at around ~86 per cent from August, 2016 to January, 2017.

SMERA believes that efficient working capital management will be crucial to the company in order to maintain a stable credit profile.

Weaknesses:**Moderate financial risk profile:**

The company's networth stood moderate at around Rs.35.36 cr as on March 31, 2016. The gearing deteriorated to 1.65 times in FY2016 from 1.25 times in FY2015 mainly on account of addition of debt for modernisation of textile unit. The total debt of Rs.58.37 cr as on March 31, 2016 includes term loan of Rs.19.48 cr, unsecured loan from directors of Rs.2.46 cr, CPLTD of Rs.3.25 cr and short term borrowing of Rs.33.18 cr.

The interest coverage ratio stood at 1.14 times in FY2016 (2.20 times in FY2015) mainly on account of decline in operating margins to 4.61 per cent in FY2015-16 from 7.56 per cent in FY2014-15. Further, the DSCR too stood at 1.19 times in FY2016.

SMERA believes that with improvement in operating efficiency due to modernisation of the unit, the company is expected to register improvement in debt protection metrics in the medium term.

Susceptibility of margins to fluctuations in cotton prices

Raw cotton comprises around ~60-70 per cent of the total input cost for a yarn manufacturer. The prices of raw cotton are highly volatile due to its dependence on several factors like government policies, demand supply scenario, import-export and climatic conditions. Thus, exposing the profitability margins to fluctuations in cotton prices.

Analytical approach: SMERA has considered the standalone financial and business risk profiles of the company to arrive at the ratings.

Applicable Criteria

- Manufacturing Entities - <https://www.smera.in/criteria-manufacturing.htm>
- Application of Financial Ratios & Adjustments - <https://www.smera.in/criteria-fin-ratios.htm>
- Default Recognition - <https://www.smera.in/criteria-default.htm>

Outlook: Stable

SMERA believes that the outlook on PSMPL's rated facilities will remain stable over the medium term on account of the experienced management. 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 capital structure or steep decline in revenues and profit margins. Going forward, the ability of the company to make optimum usage of the upgraded unit and improve accruals will be crucial in improving the overall financial profile.

About the Rated Entity

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 (20 to 40 counts) with installed capacity of 40,800 spindles and fabric (outsources manufacturing). The company generates around 67 per cent of revenue from sale of cotton yarn and the rest 33 per cent from fabric sale. The overall operations are managed by Mr. S. D. Rathinasabapathy. The yarn manufacturing unit is located in Dindigul, Tamil Nadu.

For FY2015-16, PSMPL reported net loss of Rs.0.20 cr on operating income of Rs.167.95 cr, as compared to profit after tax (PAT) of Rs.3.38 cr on operating income of Rs.181.90 cr in FY2014-15.

Status of non-cooperation with previous CRA (if applicable): Not Applicable

Any other information: Not Applicable

Rating History for the last three years:

Name of Instrument /Facilities	FY2017			FY2016		FY2015		FY2014	
	Scale	Amount (Rs. Crore)	Rating with Outlook	Date	Rating	Date	Rating	Date	Rating
Cash Credit	LT	65.00** (Enhanced from Rs.45.00 cr)	SMERA BBB-/Stable (Reaffirmed)	Feb 18, 2016	SMERA BBB-/Stable (Reaffirmed)	Feb 11, 2015	SMERA BBB-/Stable (Upgrade)	Jan 27, 2014	SMERA A BBB-/Stable (Assigned)
Term Loan I	LT	1.90	SMERA BBB-/Stable (Reaffirmed)	Feb 18, 2016	SMERA BBB-/Stable (Reaffirmed)	Feb 11, 2015	SMERA BBB-/Stable (Upgrade)	Jan 27, 2014	SMERA A BBB-/Stable (Assigned)
Term Loan II	LT	1.68	SMERA BBB-/Stable (Reaffirmed)	Feb 18, 2016	SMERA BBB-/Stable (Reaffirmed)	Feb 11, 2015	SMERA BBB-/Stable (Upgrade)	Jan 27, 2014	SMERA A BBB-/Stable (Assigned)

Term Loan III	LT	0.83	SMERA BBB-/Stable (Reaffirmed)	Feb 18, 2016	SMERA BBB-/Stable (Reaffirmed)	Feb 11, 2015	SMERA BBB-/Stable (Upgrade)	Jan 27, 2014	SMERA A BBB-/Stable (Assigned)
Term Loan IV	LT	3.60	SMERA BBB-/Stable (Reaffirmed)	Feb 18, 2016	SMERA BBB-/Stable (Assigned)				
Term Loan V	LT	0.72	SMERA BBB-/Stable (Reaffirmed)	Feb 18, 2016	SMERA BBB-/Stable (Assigned)				
Term Loan VI	LT	2.66	SMERA BBB-/Stable (Reaffirmed)	Feb 18, 2016	SMERA BBB-/Stable (Assigned)				
Term Loan VII	LT	2.30	SMERA BBB-/Stable (Reaffirmed)	Feb 18, 2016	SMERA BBB-/Stable (Assigned)				
Term Loan VIII	LT	3.69	SMERA BBB-/Stable (Reaffirmed)	Feb 18, 2016	SMERA BBB-/Stable (Assigned)				
Term Loan IX	LT	2.56	SMERA BBB-/Stable (Reaffirmed)	Feb 18, 2016	SMERA BBB-/Stable (Assigned)				
Proposed Loan	LT	11.60	SMERA BBB-/Stable (Assigned)	-	-	-	-	-	-

**** Sublimit ILC/FLC of Rs.30.00 crore**

***Annexure – Details of instruments rated:**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs in cr)	Ratings/ Outlook
Cash Credit	NA	NA	NA	65.00** (Enhanced from Rs.45.00 cr)	SMERA BBB-/Stable (Reaffirmed)
Term Loan I	NA	NA	31/Jul/2018	1.90	SMERA BBB-/Stable (Reaffirmed)
Term Loan II	NA	NA	31/May/2019	1.68	SMERA BBB-/Stable (Reaffirmed)
Term Loan III	NA	NA	31/May/2019	0.83	SMERA BBB-/Stable (Reaffirmed)
Term Loan IV	NA	NA	30/Apr/2022	3.60	SMERA BBB-/Stable (Reaffirmed)
Term Loan V	NA	NA	30/Apr/2022	0.72	SMERA BBB-/Stable (Reaffirmed)
Term Loan VI	NA	NA	30/Apr/2022	2.66	SMERA BBB-/Stable (Reaffirmed)
Term Loan VII	NA	NA	30/Nov/2022	2.30	SMERA BBB-/Stable (Reaffirmed)
Term Loan VIII	NA	NA	30/Oct/2022	3.69	SMERA BBB-/Stable (Reaffirmed)
Term Loan IX	NA	NA	30/Oct/2022	2.56	SMERA BBB-/Stable (Reaffirmed)
Proposed Loan	NA	NA	-	11.60	SMERA BBB-/Stable (Assigned)

** Sublimit ILC/FLC of Rs.30.00 crore

Note on complexity levels of the rated instrument: <https://www.smera.in/criteria-complexity-levels.htm>

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ABOUT SMERA

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