

February 14, 2014

Facilities	Amount (Rs. Crore)	Ratings
Cash Credit	2.50	SMERA BBB/Stable (Assigned)
Proposed Term Loan	14.00	SMERA BBB/Stable (Assigned)
Bank Guarantee	1.00	SMERA A2(Assigned)
Letter of Credit	0.25	SMERA A2(Assigned)

SMERA has assigned ratings of '**SMERA BBB**' (read as SMERA triple B) and '**SMERA A2**' (read as SMERA A two) to the above-mentioned bank facilities of Sree Satyanarayana Spinning Mills Limited (SSSML). The outlook is '**Stable**'. The ratings are supported by the company's long track record of operations, experienced management and established association with reputed customers. The ratings are further supported by the company's strong interest coverage ratio and comfortable liquidity position. However, the ratings are constrained by the company's moderate scale of operations amidst intense competition prevalent in the cotton yarn industry. The ratings are also constrained by the company's exposure to raw material price volatility and customer concentration risk.

SSSML, established in 1962, is an Andhra Pradesh-based company engaged in manufacturing of cotton yarn. SSSML benefits from its experienced management. The company's directors have around three decades of experience in the cotton yarn industry. SSSML has long-standing relationships with various reputed customers, including Arvind Limited and Alok Industries Limited. SSSML's interest coverage ratio is strong at 31.44 times in FY2012-13 (refers to financial year, April 01 to March 31). The company has no long-term debt as on March 31, 2013. Moreover, SSSML has a comfortable liquidity position evidenced by credit balance of cash credit limit during January 2013 to December 2013.

SSSML has moderate-scale operations, as reflected in revenues of Rs.51.55 crore in FY2012-13. The company faces intense competition from several players in the cotton yarn industry. SSSML's profit margins are exposed to volatility in raw material prices. The company's raw material cost accounts for about 41 per cent of the total sales in FY2012-13. SSSML is also exposed to customer concentration risk as the company derives ~70 per cent of its total revenue from four customers.

SSSML plans to increase its installed capacity (from 40,000 spindles to 50,416 spindles) by setting up a new factory adjacent to its existing premises. The cost of the project is estimated at ~Rs.20.00 crore, which is likely to be funded through a term loan of Rs.14.00 crore (under Technology

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.

Upgradation Fund Scheme) and equity of Rs.6.00 crore. The company aims to commission the project by April 2014. Stabilization of operations at the upcoming factory unit and offtake of additional capacity is a key rating sensitivity.

Outlook: Stable

SMERA believes the outlook on SSSML's rated facilities will remain stable over the medium term. The company's ability to expand its scale of operations without compromising on profitability and liquidity position will be a key rating sensitivity. The outlook may be revised to 'Negative' in case of sharp deterioration in the company's profit margins or capital structure. The outlook may be revised to 'Positive' in case the company demonstrates strong growth in revenues while maintaining stable profit margins.

About the company

SSSML, established in 1962, is an Andhra Pradesh-based company engaged in manufacturing of cotton yarn (80s-170s count range).

SSSML is managed by Mr. Yelamarthi Narayana Rao Chowdhary, Mr. Ethirajulu Sathyanarayana, Mr. Mullapudi Narendranath, Mr. Pendyala Narendranath Chowdary, Mr. Dharmaraju Anaparthi, Mr. Parvatha Rao Sunkavally, Mr. Laxmanaswamy Bikkina and Mr. Krishnaiah Tallury.

The company's factory unit and registered office is located in Tanuku, Andhra Pradesh. SSSML is listed on the Madras Stock Exchange.

For FY2012-13, SSSML reported net profit of Rs.5.38 crore on total income of Rs.51.55 crore, as compared with net profit of Rs.0.99 crore on total income of Rs.42.18 crore for FY2011-12. Further, the company reported net profit of Rs.6.67 crore on total income of Rs.46.32 crore (provisional) during April 2013 to December 2013. SSSML's net worth stood at Rs.27.88 crore as on March 31, 2013, as compared with Rs.22.68 crore a year earlier.

Contact List:

Media/Business Development	Analytical Contacts	Rating Desk
Mr. Virendra Goyal, VP, SME – Sales Tel : +91 2267141177 Cell : +91 9930074009 Email: virendra.goyal@smera.in Web: www.smera.in	Umesh Nihalani Head - Corporate Ratings, Tel: +91-22-6714 1106 Email: umesh.nihalani@smera.in	Tel: +91-22-6714 1170 Email: ratingdesk@smera.in

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.