

June 24, 2015

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

SMERA has reaffirmed a long-term rating of '**SMERA BBB**' (**read as SMERA triple B**) and a short-term rating of '**SMERA A2**' (**read as SMERA A two**) on the Rs.17.75 crore bank facilities of Sree Satyanarayana Spinning Mills Limited (SSSML). The outlook is '**Stable**'. The ratings are supported by the company's long operational track record, experienced management and reputed customer base. The ratings also draw support from the comfortable financial risk profile and liquidity position. However, the ratings are constrained by the moderate scale of operations in a highly competitive cotton yarn industry and susceptibility of profitability to volatility in raw material prices apart from customer concentration risk. The ratings are also constrained by the delay in expansion undertaken by the company.

Update

SSSML reported revenue of Rs.61.06 crore in FY2013-14 (refers to financial year, April 01 to March 31), as compared with revenue of Rs.51.55 crore in FY2012-13. The company reported revenue of Rs.58.78 crore during FY2014-15 (provisional). The company's tangible net worth stood at Rs.39.38 crore (provisional) as on March 31, 2015, as compared with Rs.35.58 crore a year earlier. SSSML's debt-equity ratio stood at 0.18 times as on March 31, 2015. The company's interest coverage ratio stood at 33.68 times in FY2014-15.

SSSML expanded its capacity from 40,000 spindles to 50,416 spindles in FY2015. The expansion of the company has got delayed by six months. Currently building has been constructed and machineries have been purchased for expansion. However, installation of machinery will take another two months and company will be able to commence its operations latest by December 2015.

Outlook: Stable

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

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be revised to 'Positive' if the company demonstrates resilient performance while maintaining stable profit margins.

About the Company

SSSML, promoted by Mr. Mullapudi Harishchandra Prasad and Mr. Yelamarthi Narayana Rao Chowdhary. The company is an Andhra Pradesh-based cotton yarn manufacturer with factory and registered office at Tanuku.

At present management of SSSML is vested in the hands of 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.

SSSML reported net profit of Rs.8.19 crore on total income of Rs.61.06 crore in FY2013-14 as compared with net profit of Rs.5.38 crore on total income of Rs.51.55 crore in FY2012-13. Further, the company reported net profit of Rs.4.31 crore (provisional) on total income of Rs.58.78 crore (provisional) in FY2015. The company's net worth stood at Rs.39.38 crore (provisional) as on March 31, 2015, as compared with Rs.35.58 crore a year earlier.

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