

## Press Release

16 October, 2017

**Sree Satyanarayana Spinning Mills Limited (SSSML)**

**Rating Reaffirmed**



<b>Total Bank Facilities Rated *</b>	Rs.28.64 crore (Enhanced from Rs.23.08 crore)
<b>Long Term Rating</b>	SMERA BBB/Stable (Reaffirmed)
<b>Short Term Rating</b>	SMERA A2 (Reaffirmed)

\*Refer Annexure for details

### Rating Rationale

SMERA has reaffirmed the long term rating of '**SMERA BBB**' (**read as SMERA triple B**) and the short term rating of '**SMERA A2**' (**read as SMERA A two**) on the Rs.28.64 crore bank facilities of Sree Satyanarayana Spinning Mills Limited (SSSML). The outlook is '**Stable**'.

SSSML was incorporated in 1962 by Mr. Mullapudi Harishchandra Prasad, Mr. Bolla Bulli Ramaiah, Mr. Nuthakki Bhanu Prasad and others. SSSML has 50048 spindles and is engaged in the manufacturing of cotton yarn at Tanuku in Andhra Pradesh.

### List of Key Rating Drivers and their detailed description

#### Strengths:

**Long operational track record:** SSSML was incorporated on 23 July, 1962. The promoters possess over five decades of experience in the textile industry.

**Experienced and qualified management:** The directors have experience of around five decades in the cotton yarn industry.

**Established relations with reputed customer base:** SSSML has established relationships of over two decades with reputed customers such as Arvind Limited, Welspun India Ltd., Bannari Amman Spinning Mills.

**Moderate financial risk profile:** SSSML has moderate financial risk profile with gearing (debt to equity ratio) of 0.44 times as on March 31, 2016 as against 0.18 times as on 31 March, 2015. The net worth of SSSML increased to Rs.41.16 crore in FY2016 from Rs. 39.38 crore in FY2015. The interest coverage ratio (ICR) stood at 5.22 times in FY2016 as against 33.68 times in FY2015 and DSCR of 4.08 times in FY2016 as against 24.96 times in FY2015. The deterioration in financial risk profile is on account of increase in interest and term debt obligation on additional term loan availed for capacity expansion.

**Comfortable liquidity position:** SSSML has comfortable liquidity position reflected in the working capital cycle of 66 days in FY2016 as against 57 in FY2015. The net cash accruals stood at Rs. 5.21 crore as against term debt obligation of ~Rs. 1.80 crore as on 31 March, 2016. Going ahead, the net cash accruals are expected to remain comfortable at ~Rs. 5.00 crore due to stable profitability and marginal increase in term debt obligation. The NCA to TD stood at 0.29 times as on 31 March, 2016. The company has unencumbered cash and cash equivalents of Rs. 0.57 crore as on 31 March, 2016.

The cash credit limit has been enhanced from Rs.8.00 crore to Rs.13.00 crore in February 2017. The average utilisation of cash credit limit from Aug 2016 to Feb 2017 has been 19 percent.

### **Weaknesses:**

**Moderate scale of operations:** The operations are modest despite the company having commenced operations from 1962. SSSML also faces intense competition in the cotton yarn segment marked by the presence of several small and large players. The revenue stood at Rs.63.19 crore in FY2016 as against Rs. 58.78 crore in FY2015. For FY2017, SSSML reported revenue of Rs. 63.78 crore.

**Susceptibility to volatility in raw material prices:** The profit margins are susceptible to fluctuations in the prices of raw material - cotton.

**Analytical approach:** SMERA has considered the standalone business and financial risk profiles of SSSML.

### **Applicable Criteria**

- Manufacturing Entities : <https://www.smera.in/criteria-manufacturing.htm>
- Application of Financial Ratios and 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 SSSML's rated facilities will continue to remain stable over the medium term owing to its experienced management. The outlook may be revised to 'Positive' in case of improvement in revenues while maintaining stable profit margins or significant improvement in net cash accruals. Conversely, the outlook may be revised to 'Negative' in case of sharp decline in revenues and profit margins or deterioration in the capital structure owing to large debt funded capex or working capital requirements.

### **About the Rated Entity**

Sree Satyanarayana Spinning Mills Limited (SSSML) was incorporated on 23 July, 1962 by Mr. Mullapudi Harishchandra Prasad, Mr. Bolla Bulli Ramaiah, Mr. Nuthakki Bhanu Prasad and others. SSSML has 50048 spindles and is engaged in the manufacture of cotton yarn at Tanuku in Andhra Pradesh.

For FY2015-16, SSSML reported Profit after Tax (PAT) of Rs.2.29 crore on operating income of Rs.63.19 crore compared to PAT of Rs.4.31 crore on operating income of Rs.58.78 crore in FY2014-15. The net worth stood at Rs.41.16 crore as on 31 March, 2016 against Rs.39.38 crore a year earlier.

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

**Any other information:** Not Applicable

**Rating History (Upto last three years)**

Name of Instrument/Facilities	FY2017					FY2016		FY2015		FY2014	
	Scale	Amount (Rs. Crore)	Rating with Outlook	Date	Rating	Date	Rating	Date	Rating	Date	Rating
Cash Credit	LT	13.00 (enhanced from Rs.8.00 crore)	SMERA BBB/Stable (Reaffirmed)	April 01, 2016	SMERA BBB/Stable (Reaffirmed)	June 24, 2015	SMERA BBB/Stable (Reaffirmed)	Feb 14, 2014	SMERA BBB/Stable (Assigned)	NA	NA
Proposed Term Loan	LT	14.00	-	-	-	June 24, 2015	SMERA BBB/Stable (Reaffirmed)	Feb 14, 2014	SMERA BBB/Stable (Assigned)	NA	NA
Term Loan	LT	12.31 (revised from Rs.13.82 crore)	SMERA BBB/Stable (Reaffirmed)	April 01, 2016	SMERA BBB/Stable (Reaffirmed)	-	-	-	-	NA	NA
Letter of Credit	ST	3.00 (enhanced from Rs.1.00 crore)	SMERA A2 (Reaffirmed)	April 01, 2016	SMERA A2 (Reaffirmed)	June 24, 2015	SMERA A2 (Reaffirmed)	Feb 14, 2014	SMERA A2 (Assigned)	NA	NA
Bank Guarantee	ST	0.25	SMERA A2 (Reaffirmed)	April 01, 2016	SMERA A2 (Reaffirmed)	June 24, 2015	SMERA A2 (Reaffirmed)	Feb 14, 2014	SMERA A2 (Assigned)	NA	NA
Credit Exposure Limit	ST	0.08 (revised from Rs.0.01 crore)	SMERA A2 (Reaffirmed)	April 01, 2016	SMERA A2 (Assigned)	NA	NA	NA	NA	NA	NA

**\*Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
Cash Credit	N.A	N.A	N.A	13.00 (enhanced from Rs.8.00 crore)	SMERA BBB/Stable (Reaffirmed)
Term Loan	N.A	N.A	N.A	12.31 (revised from Rs.13.82 crore)	SMERA BBB/Stable (Reaffirmed)
Letter of Credit	N.A	N.A	N.A	3.00 (enhanced from Rs.1.00 crore)	SMERA A2 (Reaffirmed)
Bank Guarantee	N.A	N.A	N.A	0.25	SMERA A2 (Reaffirmed)
Proposed Bank Facility	N.A	N.A	N.A	0.08 (revised from Rs.0.01 crore)	SMERA A2 (Reaffirmed)

**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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