

Press Release

Sree Satyanarayana Spinning Mills Limited

June 18, 2018

Rating Reaffirmed



Total Bank Facilities Rated*	Rs. 28.64 Cr.
Long Term Rating	ACUITE BBB / Outlook: Stable (Reaffirmed)
Short Term Rating	ACUITE A2 (Reaffirmed)

* Refer Annexure for details

Rating Rationale

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

Sree Satyanarayana Spinning Mills Limited (SSSML), incorporated on 23 July, 1962, was promoted by Mr. Mullapudi Harishchandra Prasad and Mr. Pendyala Narayana Rao Chowdhary. Currently, the operations are managed by Mr. E. Sathyanarayana (Managing Director and CEO), Mr. Pendyala Narayana Rao Chowdhary and others. The company has installed capacity of 50,048 spindles and is engaged in manufacturing of cotton yarn at Tanuku in Andhra Pradesh.

Key Rating Drivers

Strengths

- **Long operational track record and established customer relationships**

Long standing presence of around five decades has helped the company earn a good reputation in the industry and long standing relations with its customers which in turn has helped the company to maintain revenues at a steady level.

- **Experienced and qualified management**

The directors have experience of around five decades in cotton yarn industry. With a mix of experience and technical expertise of the directors supported with experienced second line of management, SSSML has been able to keep itself and its product updated in line with the demand of its customers.

- **Reputed customer base and wide geographic base**

The company has over the decades developed established relationships with reputed customers such as Arvind Limited and Bannari Amman Spinning Mills, among others. SSSML has been able to recover payments from customers on time which has helped in maintaining comfortable liquidity position. SSSML caters to customers based in Gujarat, Maharashtra, Tamil Nadu and Karnataka which safeguards it from the risk of geographic concentration.

- **Moderate financial risk profile**

SSSML has an interest coverage ratio of 4.64 times in FY2018 (Provisional) as against 5.91 times in FY2017 and DSCR of 1.96 times in FY2018 (Provisional) as against 2.40 times for FY2017. Net worth of SSSML has increased from Rs.45.03 crore in FY2017 to Rs.48.67 crore in FY2018 (Provisional) on account of retention of profits. Comfortable gearing marked at 0.25 times as on March 31, 2018 as against 0.33 times as on March 31, 2017 on account of strong net worth base.

- **Comfortable liquidity position**

The CC limit has been enhanced from Rs.8.00 crore to Rs.13.00 crore in FY2017. The company has not utilised CC limit in last six months. Working capital cycle days is marked at 145 in FY2018 as against 110 in FY2017.

Weaknesses

- **Moderate scale of operations in a highly competitive industry**

The operations of SSML are considered to be modest in size despite being in operations since 1962. SSML also faces high competition as it operates in the cotton yarn segment which is marked by the presence of few large players and many small players. Operations of SSML are considered moderate in scale with FY2018 (Provisional) revenue of Rs.65.26 crore.

- **Susceptibility to volatility in raw material prices**

Cost of raw material i.e. cotton is vulnerable to price volatility. The company maintains stock of key raw materials based on expected orders due to longer production cycle to deliver bulk orders in timely manner. Any abnormal cotton price movements might directly impact its bottom line.

Analytical Approach

Acuite has considered the standalone business and financial risk profiles of Sree Satyanarayana Spinning Mills Limited to arrive at the rating.

Outlook: Stable

Acuite believes that the outlook on SSML 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 'Positive' if the company demonstrates resilient performance while maintaining stable profit margins. The outlook may be revised to 'Negative' if there is a sharp deterioration in the company's profit margins or capital structure.

About the Rated Entity - Key Financials

	Unit	FY18 (Provisional)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	65.32	70.09	63.19
EBITDA	Rs. Cr.	7.08	11.78	7.60
PAT	Rs. Cr.	2.21	3.86	2.29
EBITDA Margin	(%)	10.83	16.81	12.02
PAT Margin	(%)	3.38	5.51	3.62
ROCE	(%)	6.75	13.71	9.18
Total Debt/Tangible Net Worth	Times	0.25	0.33	0.44
PBDIT/Interest	Times	4.64	5.91	5.22
Total Debt/PBDIT	Times	1.67	1.26	2.26
Gross Current Assets (Days)	Days	145	110	118

Status of non-cooperation with previous CRA (if applicable)

Not Applicable

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Crore)	Ratings/Outlook
16-Oct-2017	Cash Credit	Long Term	13.00	ACUITE BBB / Stable (Reaffirmed)
	Term Loan	Long Term	12.31	ACUITE BBB / Stable (Reaffirmed)
	Letter of Credit	Short Term	3.00	ACUITE A2 (Reaffirmed)
	Bank Guarantee	Short Term	0.25	ACUITE A2 (Reaffirmed)
	Proposed Short Term Loan	Short Term	0.08	ACUITE A2 (Reaffirmed)
01-Apr-2016	Bank Guarantee	Short Term	0.25	ACUITE A2 (Reaffirmed)
	Letter of Credit	Short Term	1.00	ACUITE A2 (Reaffirmed)
	Derivative Exposure	Short Term	0.01	ACUITE A2 (Reaffirmed)
	Cash Credit	Long Term	8.00	ACUITE BBB / Stable (Reaffirmed)
	Term Loan	Long Term	13.82	ACUITE BBB / Stable (Reaffirmed)
24-Jun-2015	Cash Credit	Long Term	2.50	ACUITE BBB / Stable (assigned)
	Bank Guarantee	Short Term	0.25	ACUITE A2 (assigned)
	Proposed Long Term Loan	Long Term	14.00	ACUITE BBB / Stable (assigned)
	Letter of Credit	Short Term	1.00	ACUITE A2 (assigned)

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	13.00	ACUITE BBB / Stable (Reaffirmed)
Term Loan	Not Applicable	Not Applicable	Not Applicable	12.31	ACUITE BBB / Stable (Reaffirmed)
Letter of credit	Not Applicable	Not Applicable	Not Applicable	3.00	ACUITE A2 (Reaffirmed)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	0.25	ACUITE A2 (Reaffirmed)
Proposed short term loan	Not Applicable	Not Applicable	Not Applicable	0.08	ACUITE A2 (Reaffirmed)

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About Acuite Ratings & Research:

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