

February 01, 2013

Facilities	Amount (Rs. Crore)	Rating
Term loan	3.72	SMERA BB-/Stable/Assigned
Cash Credit	4.50	

SMERA has assigned a rating of '**SMERA BB-**(read as SMERA Double B minus)' to the Rs. 3.72 crore term loan facilities and the Rs. 4.50 crore cash credit facility of SSPE Cotton Mills Private Limited (SSPE). The outlook is '**Stable**'. The ratings derives support from the extensive experience of the promoters in the spinning industry, long standing presence in the viscose yarn segment and moderate financial profile marked by healthy cash flow from operations and debt equity ratio of 1.24 times as on 31/Mar/2012. The ratings are however constrained by the small scale of operations, intense competition prevailing in a highly fragmented textile industry coupled with high supplier concentration limiting pricing flexibility and the likely impact on operational performance of the company owing to the power disruptions prevailing in the state of Tamil Nadu.

SSPE's business is primarily restricted to spinning of VSF yarn from viscose staple fibre (VSF), a segment which is characterized by competition and limited product differentiation. SSPE is a small player in a highly fragmented textile industry which limits its bargaining power with suppliers and customers. VSF is sourced entirely from Grasim Industries Limited, which is the sole producer of VSF in India.

SSPE has a production capacity of 19,588 spindles and manufactures viscose yarns in counts of 18s to 40s. Company does not have presence in the higher-count viscose yarn segments and in other yarn segments such as polyester or cotton blended yarn. SSPE has recently installed auto coner machines which ensures uniformity in the thickness of viscose yarns produced, thereby expecting better realization for the yarn produced.

SSPE benefits from the moderate financial profile supported by healthy cash flow from operations of Rs. 2.13 crores for FY 2012. Its debt equity ratio stands at 1.24 as on 31/Mar/2012 and is expected to improve to 1.04 times because of the absence of any significant debt-funded capex plan.

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Outlook: Stable

SMERA believes that SSPE will continue to benefit from its long standing presence in the spinning industry, promoter's rich industry experience and better realization on account of investment made in auto coner machines. However, the company's ability to scale up its operations, improve its profit margins and maintain high capacity utilization remains the key rating sensitivities.

About SSPE Cotton Mills Private Limited

SSPE was formed in the year 1994. SSPE is engaged in manufacturing of 100% viscose yarn in the count range of 18s to 40s with a capacity of 19,588 spindles at its manufacturing facilities located in Perundurai and Karur (Tamil Nadu). The company procures viscose staple fibre from Grasim Industries Limited and caters mainly to the weavers, traders and hosiery manufacturers in Erode, Tirupur, Mumbai, Ichalkaranji, Ahmedabad and Kolkata.

For FY 2011-12, SSPE reported a net profit of Rs. 0.38 crore on a total income of Rs. 40.34 crore as against a net profit of Rs. 0.76 crore on a total income of Rs. 44.09 crore for FY 2010-11.

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