

Hindustan Spinners

April 8, 2021

Facilities/Instruments	Amount (Rs. crore)	Ratings	Rating Action
Long Term Bank Facilities	55.74 (Enhanced from 36.03)	CARE BBB-; Stable (Triple B Minus; Outlook: Stable)	Reaffirmed
Short Term Bank Facilities	2.71	CARE A3 (A Three)	Reaffirmed
Total Bank Facilities	58.45 (Rs. Fifty-Eight Crore and Forty-Five Lakhs Only)		

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Hindustan Spinners factors stable operating income and profitability margins. The rating continues to derive benefits from long track record of the entity coupled with extensive experience of the partners in the industry, proximity of the manufacturing plant to cotton cultivation areas comfortable capital structure and debt protection metrics, and benefits realized from captive power sources.

However, the ratings continue to be tempered by susceptibility of profit margins to volatility in raw material prices, exposure to intense competition and seasonal nature of the cotton yarn industry and partnership nature of constitution with inherent risk of capital withdrawal.

Rating sensitivities

Positive factors

- Significant improvement in scale of operations marked by TOI of Rs. 175 Crore from present level on sustained basis.
- Improvement in the overall gearing by infusion of capital and less reliance on external borrowings on a sustained basis.

Negative factors

- Significant Decline in scale of operations and operating profitability margins falling below 9% on a sustained basis.
- Any significant weakening of the capital structure resulted by withdrawal of capital or higher reliance on debt

Detailed description of the key rating drivers

Key Rating Strengths

Long track record of the entity and intensive industry experience of the partners

HS is promoted by Mr. D.Selvarajan (Managing Partner) and his wife, Mrs. S. Shanthi. The partners have intensive experience in the cotton industry. Mr. D. Selvarajan assisted by a team of professionals run the day-to-day activities of the firm. Both the partners have more than four decades of experience in the cotton spinning sector. He is actively accompanied by his wife, who has more than three decades of experience in the said field. Further, the long-term presence of the partners in the market has aided in establishing customer relationship.

Proximity of the manufacturing plant to cotton cultivation areas

The spinning facility of the firm is located in proximity to major cotton cultivation areas of Tamil Nadu, which results in ease of accessing of raw materials at competitive prices and minimal logistical expenses.

Stable operating income and profitability margins

The company managed to maintain its scale of operations in line with previous year witnessed by operating income of Rs. 130.47 Crore in FY20 however fallen marginally by 0.57% on account of impact due to COVID-19 prevailed in the last quarter of the year. The operating profit margin remained flat with previous year at 11.28% in FY20 as against 11.51% while net profit margin increased marginally by 22bps at 2.04% as against 1.82%.

Comfortable capital structure and debt protection metrics during FY20

With respect to the solvency position of the firm the capital structure measured by overall gearing has improved marginally to 0.84x as on March 31, 2020 as against 0.98x as on March 31, 2019 attributed to scheduled repayment of long-term debts with nil fresh borrowings followed by lesser utilization of working capital bank facilities in comparison with previous year as on balance sheet date. It is to be noted that there has been withdrawal of capital to the tune of Rs. 2.08 Crore during FY20. Total debt to GCA has improved to 3.76x in FY20 from 4.27x in FY19 aided by decrease in overall debt quantum of the firm. Further the firm generated sufficient operating profits to service its interest obligations marked by interest coverage of 5.38x in FY20 as against 5.43x in FY19.

Satisfactory Operating cycle

The operating cycle of the firm continued to remain satisfactory at 59 days in FY20 however elongated from 40 days which has been improved from previous fiscal (PY : 53 days) on the back of comfortable collection, creditor's and inventory holding periods. This has kept the firm to be less reliance on working capital bank borrowings witnessed by 42% of average utilization for the past twelve months ended february 2021.

Benefits realized from captive power sources

Captive power reduces the dependency on the grid, reduces the cost of electricity which is an input to production processes, and surplus electricity can also be sold to the grid, thus bringing in multiple benefits. HS has 11 wind mills with total power generation capacity of 10.70 MW (as on February 2021) at various locations of Tamil Nadu. The firm meets around 95% of its power requirement from wind mills and the remaining from TANGEDCO and third parties. In addition to this, the firm also has its own 2KW solar power plant. Due to this, the firm has managed to sett off its power expenses to some extent.

Key Rating Weaknesses**Susceptibility of profit margins to volatility in raw material prices**

Prices of raw cotton are highly volatile in nature and depend upon the factors like area under cultivation, crop yield, international demand-supply scenario, export quota decided by the government and inventory carry forward of the previous year. Hence, the profitability margins of the company are susceptible to fluctuation in raw material prices.

Exposure to intense competition in the cotton yarn industry coupled with partnership nature of business

HS operates in a highly fragmented and unorganized market of the textile industry marked by large number of small sized players. The industry is characterized by low entry barrier due to minimal capital requirement and easy access to customers and supplier. Also, the presence of big sized players with established marketing & distribution network results into intense competition in the industry. A business run by partners also poses a risk of heavy burden, i.e. an inherent risk of capital withdrawal, at a time of personal contingency which can adversely affect the capital structure of the firm. Moreover, the partnership firms have restricted access to external borrowing which limits their growth opportunities to some extent. There have been withdrawals to the tune of Rs. 2.08 crore during FY20.

Liquidity analysis: Adequate

The firm maintains satisfactory cash conversion cycle of 59 days which stood comfortable in line with other peers in the industry. With this, the firm could manage its day to day operations through internal accruals and relying minimal on its working capital facilities. Its unutilized bank lines are more than adequate to meet its incremental working capital needs over the next one year. The average utilization of working capital facility for the past twelve months ended February 2021 stood at 42%. Further the liquidity is adequate marked by sufficient accruals against moderate repayment obligations. The cash balance remained low to the tune of Rs.0.02 crore as on December 31, 2020 (Prov). The firm availed moratorium for its bank facilities amid COVID-19 announced by RBI.

Analytical approach: Standalone

Applicable criteria

[Rating Methodology - Manufacturing Companies](#)

[Rating Methodology for Cotton Textile Manufacturing](#)

[Financial ratios – Non-Financial Sector](#)

[Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings](#)

[Rating Criteria on Short Term Instruments](#)

[CARE's Policy on Default Recognition](#)

About the Company

Hindustan Spinners (HS) is promoted by two partners Mr. D.Selvarajan (Managing Partner) and his wife, Mrs. S. Shanthi in the year 1973. The promoters, assisted by a team of professionals run the day-to-day activities of the firm. The firm is engaged in cotton spinning, manufacturing of cotton yarns upto 40 count, at its two manufacturing facilities, located at Mettupalayam

Road (Unit-I) and Karamadai (Unit-II), with an aggregate installed capacity of 55392 spindles (as on February 28, 2021). Additionally, the firm has a captive power generating windmills (10 nos) in places of Tirunelveli, Kanyakumari and Coimbatore districts, with capacity of 10.70MW which is sufficient to meet its power requirements. Also, the firm owns, a solar power plant of 2.4KW, thereby generating a notable portion of income by selling it to local DISCOMS with PPA of 20 years at the cost of Rs. 6.35/- per unit.

Brief Financials (Rs.crore)	FY19 (A)	FY20 (A)
Total operating income	131.22	130.47
PBILDT	15.10	14.72
PAT	2.39	2.66
Overall gearing (times)	0.98	0.84
Interest coverage (times)	5.43	5.38

A : Audited

Status of non-cooperation with previous CRA: Nil

Any other information: Not applicable

Rating History for last three years: Please refer Annexure-2

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	March 2027	37.24	CARE BBB-; Stable
Fund-based - LT-Cash Credit	-	-	-	14.00	CARE BBB-; Stable
Non-fund-based - ST-Bank Guarantees	-	-	-	2.71	CARE A3
Fund-based - LT-Term Loan	-	-	March 2027	4.50	CARE BBB-; Stable

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Term Loan	LT	37.24	CARE BBB-; Stable	1)CARE BBB-; Stable (03-Apr-20)	-	1)CARE A3 (27-Feb-19)	-
2.	Fund-based - LT-Cash Credit	LT	14.00	CARE BBB-; Stable	1)CARE BBB-; Stable (03-Apr-20)	-	1)CARE BBB-; Stable (27-Feb-19)	-
3.	Non-fund-based - ST-Bank Guarantees	ST	2.71	CARE A3	1)CARE A3 (03-Apr-20)	-	1)CARE A3 (27-Feb-19)	-
4.	Fund-based - LT-Term Loan	LT	4.50	CARE BBB-; Stable	1)CARE BBB-; Stable (03-Apr-20)	-	1)CARE BBB-; Stable (27-Feb-19)	-

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities-NA

Annexure 4: Complexity level of various instruments rated for this Firm

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Cash Credit	Simple
2.	Fund-based - LT-Term Loan	Simple

Sr. No.	Name of the Instrument	Complexity Level
3.	Non-fund-based - ST-Bank Guarantees	Simple

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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