

**Super Spinning Mills Limited (Revised)**

July 16, 2021

**Ratings**

Facilities/Instruments	Amount (Rs. crore)	Ratings <sup>1</sup>	Rating Action
Long Term Bank Facilities	24.97 (Enhanced from 1.93)	CARE BB; Stable (Double B; Outlook: Stable )	Revised from CARE BB-; Stable (Double B Minus; Outlook: Stable)
Long Term / Short Term Bank Facilities	12.00 (Reduced from 27.80)	CARE BB; Stable / CARE A4+ (Double B ; Outlook: Stable/ A Four Plus )	Revised from CARE BB-; Stable / CARE A4 (Double B Minus ; Outlook: Stable / A Four)
Short Term Bank Facilities	3.00 (Reduced from 19.45)	CARE A4+ (A Four Plus )	Revised from CARE A4 (A Four)
Short Term Bank Facilities	-	-	Withdrawn
<b>Total Bank Facilities</b>	<b>39.97</b> <b>(Rs. Thirty-Nine Crore</b> <b>and Ninety-Seven</b> <b>Lakhs Only)</b>		

Details of facilities in Annexure-1

**Detailed Rationale & Key Rating Drivers**

The revision in the ratings assigned to the bank facilities of Super Spinning Mills Limited (SSML) factor in the improved profitability during Q4FY21 (refers to the period January 1 to March 31) leading to the company reporting operating profits during FY21 against the losses in the past, and improved liquidity with reduced working capital borrowings through monetization of assets. The ratings continue to derive strength from the vast experience of the promoters, established track record of the company and comfortable capital structure. The ratings however are constrained by the small scale of operations with continued net losses over the years, and vulnerability of profit margins to volatility in cotton/yarn prices.

Rating sensitivities
**Positive Factors**

- Ability to scale up operations above Rs.80 crores with greater product diversification.
- Ability to effectively utilize the installed capacity and improve profitability with PBILDT margin over 12% on sustained basis

**Negative Factors**

- Any large debt funded capex leading to moderation in overall gearing above 2x.
- Any drop in occupancy or rentals on the leased properties

**Detailed description of the key rating drivers**
**Key rating Strengths**

**Vast experience of the promoters in textile industry and established track record of the company:** SSML belongs to SARA ELGI group, in Coimbatore. SSML commenced operations in 1962 and has an installed capacity of 34,560 spindles (reduced from 1.09 lakh spindles as on March 31, 2020) as on March 31, 2021, in Andhra Pradesh. The board of directors comprises of experienced industrialists, with three to four decades of experience in textile/ other industries.

**Improved PBILDT margins in FY21:** SSML had stopped the production of its non-viable unit since the start of FY21 and sold the same in December 2020. The PBILDT margins improved to 14.84% in Q4FY21 from 0.95% in Q3FY21 aided by the better realization of cotton yarn and lower fixed overheads. As a result, SSML reported PBILDT of Rs.1.73 crore In FY21 as against the operating losses over the past three years.

<sup>1</sup> Complete definitions of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and in other CARE publications

**Comfortable capital structure:** SSML has constantly reduced its debt levels through monetization of its freehold land to the tune of around Rs.60 crore over the past three years. Furthermore, during FY21, SSML has also sold an old manufacturing unit with 55,000 spindles for the total consideration of Rs.35 crore including profit of Rs.5 crore against which it had received Rs.27 crore. The above proceeds were used to lower the working capital borrowings and creditors. The capital structure continued to remain comfortable with overall gearing of 0.32x (PY: 0.32x) as on March 31, 2021

#### **Key Rating Weaknesses**

**Small Scale of Operations with net losses over the years:** The scale of operations of SSML stood small, with operating income declined by 67% to Rs.49.9 crore in FY21 from Rs.149.9 crore in FY20 due to closure of operations of a spinning unit from the start of FY21 which contributed 45% of income in FY20 and also due to lower sales in Q1FY21 following covid induced lockdown restrictions. With lower income, the company continued to report net loss of Rs.2.4 crore in FY21, however lower by Rs.8.87 crore compared to FY20. The interest coverage also stood weak at 0.27x in FY21.

**Vulnerability of margins to volatility in raw material prices:** The profitability of spinning mills depends largely on the prices of cotton and cotton yarn which are governed by various factors such as area under cultivation, monsoon, international demand-supply situation, etc. The cotton being the major raw material of spinning mills, movement in cotton prices without parallel movement in yarn prices impact the profitability of the spinning mills. The cotton textile industry is inherently prone to the volatility in cotton and yarn prices

**Liquidity: Stretched-** The liquidity profile of the company remained stretched however eased during the year through monetization of assets towards reduction in working capital borrowings and creditor levels. The company also availed Lease Rental Loans of Rs.21 crore during November 2020 which was backed by the rental income of around Rs.4 crore per year. The current ratio of the company has been below unity for the past few years due to higher reliance on working capital borrowings. The working capital limits are reduced to Rs.12 crore from Rs.27.8 crore and the average utilization stood comfortable at 61% over the past 12 months ended June 2021. The company also availed covid loans of Rs.4.30 crore during the year to fund working capital requirements.

#### **Industry Outlook and impact of Covid-19:**

The international cotton prices are expected to remain stable in the coming months supported by an expected improvement in global domestic cotton consumption and international trade demand with ending cotton stocks likely to decline by 3%. The cotton prices in India are also expected to be steady in the coming months backed by a likely growth in domestic consumption and improvement in cotton exports from India. While international demand for cotton yarn is expected to stay stable backed by an increase in economic activities with the launch of Covid-19 vaccination drive in various parts of the world, it remains to be seen if Bangladesh continues to import significant quantity of cotton yarn from India

**Analytical approach:** Standalone

#### **Applicable Criteria**

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

[CARE's Methodology for Cotton Textile Manufacturing](#)

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

[Financial Ratios- Non-Financial Sector](#)

[Liquidity Analysis of Non-Financial Sector Entities](#)

[Criteria for Short term Instruments](#)

[Policy on withdrawal of ratings](#)

#### **About the Company**

Super Spinning Mills Limited (SSML) incorporated in 1962, is primarily engaged in cotton yarn spinning, with a manufacturing unit in the State of Andhra Pradesh. SSML has an aggregate installed capacity of

34,560 as on March 31, 2021. SSML manufactures cotton yarn majorly in the higher count range of 40s to 80s.

Brief Financials (Rs. crore)	FY20 (A)	FY21 (A)
Total operating income	149.91	49.10
PBILDT	-4.73	1.73
PAT	-11.31	-2.44
Overall gearing (times)	0.32	0.32
Interest coverage (times)	-0.48	0.27

A-Audited

**Status of non-cooperation with previous CRA:** NA

**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 2030	24.97	CARE BB; Stable
Fund-based - ST-Bills discounting/ Bills purchasing	-	-	-	0.00	Withdrawn
Non-fund-based - ST-BG/LC	-	-	-	3.00	CARE A4+
Fund-based - LT/ ST-CC/PC/Bill Discounting	-	-	-	12.00	CARE BB; Stable / CARE A4+

#### 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 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1.	Fund-based - LT-Term Loan	LT	24.97	CARE BB; Stable	-	1)CARE BB-; Stable (08-Sep-20)	1)CARE BB-; Stable (27-Aug-19)	1)CARE BB-; Stable (27-Dec-18)
2.	Fund-based - ST-Bills discounting/ Bills purchasing	ST	-	-	-	1)CARE A4 (08-Sep-20)	1)CARE A4 (27-Aug-19)	1)CARE A4 (27-Dec-18)
3.	Fund-based - ST-Foreign Bill Discounting	ST	-	-	-	-	1)Withdrawn (27-Aug-19)	1)CARE A4 (27-Dec-18)
4.	Fund-based - ST-Foreign Bill Discounting	ST	-	-	-	-	1)Withdrawn (27-Aug-19)	1)CARE A4 (27-Dec-18)

5.	Non-fund-based - ST-BG/LC	ST	3.00	CARE A4+	-	1)CARE A4 (08-Sep-20)	1)CARE A4 (27-Aug-19)	1)CARE A4 (27-Dec-18)
6.	Fund-based - LT/ ST-CC/PC/Bill Discounting	LT/ST	12.00	CARE BB; Stable / CARE A4+	-	1)CARE BB-; Stable / CARE A4 (08-Sep-20)	1)CARE BB-; Stable / CARE A4 (27-Aug-19)	1)CARE BB-; Stable / CARE A4 (27-Dec-18)

### Annexure 3: Complexity level of various instruments rated for this company

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Term Loan	Simple
2.	Fund-based - LT/ ST-CC/PC/Bill Discounting	Simple
3.	Fund-based - ST-Bills discounting/ Bills purchasing	Simple
4.	Non-fund-based - ST-BG/LC	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](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

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### About CARE Ratings:

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