

Sri Lakshmi Godavari Spinning Mills Private Limited

June 18, 2024

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long Term Bank Facilities	13.85 (Reduced from 17.55)	CARE BB; Stable	Reaffirmed
Long Term / Short Term Bank Facilities	68.00	CARE BB; Stable / CARE A4	Reaffirmed
Short Term Bank Facilities	1.38	CARE A4	Reaffirmed

Details of instruments/facilities in Annexure-1

Rationale and key rating drivers

The ratings assigned to the bank facilities of Sri Lakshmi Godavari Spinning Mills Private Limited (SLGSMPL) continue to remain tempered by fluctuating profitability amid highly volatile cotton and yarn prices, elongated operating cycle, moderately leveraged capital structure coupled with significant exposure towards group entity, fragmented and competitive business and cyclicity associated with the textile industry. The ratings, however, derive comfort from experienced promoters, long operational track record of the company and established relationship with customers and suppliers. The ratings also take cognizance of improvement in scale of operation during FY24 (FY refers April 01 to March 31) over previous year.

Rating sensitivities: Factors likely to lead to rating actions

Positive Factors

- ✓ Ability to scale up operations with income above ₹300 crore while sustaining the PBILDT margin at 10%.
- ✓ Ability to increase the ROCE to more than 15%, on a sustained basis.

Negative Factors

- ✗ Decline in the scale of operations by 30% or more with PBILDT margin below 7% on a sustained basis.
- ✗ Significant deterioration in the operating cycle and liquidity position
- ✗ Overall gearing more than 1.5x, going forward
- ✗ Significant increase in the exposure towards group/associate companies from present levels.

Analytical approach: Standalone

Outlook: Stable

CARE believes that the entity will continue to benefit from the extensive experience of its promoters and management in the industry.

Detailed description of the key rating drivers

Key weaknesses

Working capital intensive operations and elongated operating cycle:

The working capital cycle continues to remain elongated considering high level of inventory to be maintained by the company, as raw material being a seasonal crop, and the best quality is generally available in the months of November-February. The working capital cycle has increased to 140 days as on March 31, 2024 (As on March 31, 2023: 197 days) due to high inventory days. The collection period of the company has improved yet remained moderately high as the company extends credit to its long associated customer. High receivables are also due to long pending dues from the state government in the form of Interest and Power subsidy, which has increased from Rs 27 crore in FY23 to Rs 33 crore in FY24. The average utilisation of the working capital limits stood high at ~95% during twelve twelve-month period ending March 2024.

¹Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Moderately leveraged capital structure and moderate debt coverage indicators

SLGSMPL's capital structure has improved yet remained moderately leveraged marked by overall gearing of 1.26x as on March 31, 2024 from 1.31x as on March 31, 2023; improvement in the gearing level was on account of reduction on the term debt while increase in TNW. The company has significant exposure towards its group company and factoring in the investment the adjusted gearing would look leveraged at 2.04x as on March 31, 2024.

The Debt coverage indicators has declined and stood moderate due to higher debt level and lower cash accruals in FY24. The total debt to Gross cash Accruals (TDGCA) stood at 12.55 years in FY24 from 12.29 years in FY23, and interest coverage also declined to 1.84x in FY24 from 2.24x in FY23. The company has no plan for any major capex in near future, and with the scheduled repayment of the existing term debt the capital structure would improve further.

Highly fragmented, competitive and cyclical nature of industry: The Indian textile industry consists of large organized players who contribute to 75 per cent of total installed capacity and the remaining 25 per cent is contributed by unorganized segment. SLGSMPL is a relatively small player in this space, thereby lacking the benefits of economies of scale. The intense competition in highly fragmented textile industry also restricts its ability to completely pass on volatility in input cost to its customers. The company is in the textile industry pre-dominantly dependent on cotton.

Inherent volatility associated with raw material prices and its impact on profitability: The company's profitability is susceptible to the movement in the prices of raw cotton which is the key raw material for production of cotton yarn. The prices of raw cotton are volatile in nature and depend upon factors such as area under production, yield, vagaries of monsoon, international demand supply scenario, inventory carry forward from the previous year and export quota along with minimum support price (MSP) decided by the government. Prices of raw cotton have been volatile over last couple of years, which translates into risk of inventory losses for the industry players.

Significant exposure to group company: The company has significant exposure towards its group company in the form of an equity investment (SLGSMPL owns 41.65% equity) of Rs 27 crore to Godaavari Labs Pvt Ltd (GLPL). GLPL is into manufacturing of API and intermediates at Andhra Pradesh. The exposure in the group company has increased from Rs 22 crore as on March 31, 2023 to Rs 27 crore as on March 31, 2024, and it accounts for 38% of net worth as on March 31, 2024. Considering the investment, the adjusted gearing would look leveraged. Any further increase in the investment to the group concern might impact the TNW of the company and will be critical from credit perspective.

Key strengths

Experienced Promoters with a long operational track record: The Managing Director and promoter, Mr. V Nageswara Rao has been in the cotton industry for more than a decade. His experience has helped the company good relationships with the suppliers and customers. The promoters are also having business interest as business partners in Godavari Townships Private Limited, Vummaneni Mineral Water Products Private Limited and Godaavari Labs Private Limited (CARE BB-; stable assigned in March 2024) with overall two decades of business experience.

Improved scale of operations albeit decline in profitability during FY24: SLGSMPL's scale of operations has increased marked by total operating income (TOI) at Rs 214 crore in FY24 as against Rs 136 crore in FY23, with a tangible net worth of Rs 71 crore as on balance sheet FY24. The improvement in TOI was backed by volume growth on account of continuous orders from the existing domestic clients at the back of recovery albeit slow in the textile industry. Ability of the company to increase its size remains critical from rating perspective.

The PBILDT levels have increased in FY24 compared to FY23 due to growth in TOI, although the margins have come down to 7.79% in FY24 as against 10.25% in FY23, due to moderation in the cotton yarn prices with higher raw cotton prices, which resulted reduced spread between the prices of cotton and yarn

Favourable location of operations: SLGSMPL is close to Guntur, one of the major cotton growing areas in Andhra Pradesh. Furthermore, the plant is also in close proximity to Khammam & Warangal, prominent cotton growing belts in Telangana region providing easy off take. SLGSMPL procures cotton from Guntur, Adilabad, Warangal, Maharashtra, etc

Liquidity: Adequate

The company has adequate liquidity as marked by scheduled debt repayments of around Rs. 5 crore during FY25 as against expected cash accruals of around Rs. 9 crore. The net cash flow from operating activities stood positive at Rs. 9.67 crores in FY24. The fund-based working capital limit remains highly utilized at around 95% during the last twelve months ended March-

2024, due to working capital intensive business operations. The company is not planning for any capex, apart from minor capex for modernisation of the existing spinning machinery.

Assumptions/Covenants: NA

Environment, social, and governance (ESG) risks: Nil

Applicable Criteria

[Definition of Default](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Rating Watch](#)

[Manufacturing Companies](#)

[Financial Ratios – Non financial Sector](#)

[Cotton Textile](#)

[Short Term Instruments](#)

About the company and industry

Industry Classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Consumer Discretionary	Textiles	Textiles & Apparels	Other Textile Products

Sri Lakshmi Godavari Spinning Mills Private Limited (SLGSMPL) was incorporated on 12th September 2005. The company manufactures cotton yarn at its unit in Guntur, Andhra Pradesh. The company was initially set up with 18,000 spindles which has now been scaled up to 61,008 spindles. Sri. Vummaneni Siva Nageswara Rao, his wife Smt. Vummaneni Lalitha Kumari and Mr. Kandru Subbarao are the promoters of the company. The promoters are having business experience in the processing of Mineral Water, Financing business and Real Estate for close to two decades. The promoters and his related parties have also floated a company Godaavari Labs Private Limited (CARE BB-; stable assigned in March 2024) which is into manufacturing Active Pharmaceuticals Ingredients (API) and intermediates for domestic and export market, and has recently started its operations.

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (Prov.)	2MFY25 (UA)
Total operating income	135.74	213.77	25.00
PBILDT	13.91	16.66	NA
PAT	1.90	2.31	NA
Overall gearing (times)	1.31	1.26	NA
Interest coverage (times)	2.24	1.84	NA

A: Audited, UA: Un-audited, Prov. Provisional, NA: Not available, Note: 'the above results are latest financial results available',

Status of non-cooperation with previous CRA: Brickwork Ratings has categorized the rated bank facilities of SLGSMPL under the non-cooperation category vide PR dated December 07, 2023, on account of its inability to carry out a rating exercise in the absence of the requisite information from the company.

Any other information: Not Applicable

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

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated: Annexure 4

Lender details: Annexure-5

Annexure-1: Details of Instruments / Facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Working capital Term Loan		-	-	30/06/2028	13.85	CARE BB; Stable
Fund-based - LT/ ST-CC/PC/Bill Discounting		-	-	-	68.00	CARE BB; Stable / CARE A4
Non-fund-based - ST-Bank Guarantee		-	-	-	1.18	CARE A4
Non-fund-based - ST-Forward Contract		-	-	-	0.20	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 (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2024-2025	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022
1	Fund-based - LT-Term Loan	LT	-	-	-	-	1)Withdrawn (23-Sep-22) 2)CARE BB-; Stable; ISSUER NOT COOPERATING * (23-Sep-22) 3)CARE BB-; Stable; ISSUER NOT COOPERATING * (07-Jul-22)	1)CARE BB-; Stable; ISSUER NOT COOPERATING * (30-Apr-21)
2	Fund-based - LT-Cash Credit	LT	-	-	-	-	1)Withdrawn (23-Sep-22)	1)CARE BB-; Stable; ISSUER NOT

							2)CARE BB-; Stable; ISSUER NOT COOPERATING * (23-Sep-22) 3)CARE BB-; Stable; ISSUER NOT COOPERATING * (07-Jul-22)	COOPERATING * (30-Apr-21)
3	Non-fund-based - ST-Bank Guarantee	ST	-	-	-	-	1)Withdrawn (23-Sep-22) 2)CARE A4; ISSUER NOT COOPERATING * (23-Sep-22) 3)CARE A4; ISSUER NOT COOPERATING * (07-Jul-22)	1)CARE A4; ISSUER NOT COOPERATING * (30-Apr-21)
4	Non-fund-based - ST-Forward Contract	ST	-	-	-	-	1)Withdrawn (23-Sep-22) 2)CARE A4; ISSUER NOT COOPERATING * (23-Sep-22) 3)CARE A4; ISSUER NOT COOPERATING * (07-Jul-22)	1)CARE A4; ISSUER NOT COOPERATING * (30-Apr-21)
5	Fund-based - LT/ ST-CC/PC/Bill Discounting	LT/S T	68.00	CARE BB; Stable / CARE A4	-	1)CARE BB; Stable / CARE A4 (05-Jun- 23)	-	-
6	Fund-based - LT- Working capital Term Loan	LT	13.85	CARE BB; Stable	-	1)CARE BB; Stable (05-Jun- 23)	-	-
7	Non-fund-based - ST-Forward Contract	ST	0.20	CARE A4	-	1)CARE A4 (05-Jun- 23)	-	-

8	Non-fund-based - ST-Bank Guarantee	ST	1.18	CARE A4	-	1)CARE A4 (05-Jun-23)	-	-
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*Issuer did not cooperate; based on best available information.

LT: Long term; ST: Short term; LT/ST: Long term/Short term

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

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

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Working capital Term Loan	Simple
2	Fund-based - LT/ ST-CC/PC/Bill Discounting	Simple
3	Non-fund-based - ST-Bank Guarantee	Simple
4	Non-fund-based - ST-Forward Contract	Simple

Annexure-5: Lender details

To view the lender wise details of bank facilities please [click here](#)

Note on complexity levels of the rated instrument: CARE Ratings Ltd. has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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About us:

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