

Gajavelli Spinning Mills Private Limited

November 26, 2024

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long Term Bank Facilities	100.00	CARE BB; Stable	Assigned

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The ratings assigned to the bank facilities of Gajavelli Spinning Mills Private Limited (GSMPL) is driven by moderate scale of operations, low experience of current management, moderate profitability, stretched liquidity, marginally weak debt coverage indicators, moderate capital structure, elongated operating cycle and susceptibility of profitability to volatile cotton prices, and its presence in highly fragmented and competitive industry. The ratings, however, derive strength from GSMPL's longstanding in the industry, location advantage and established relationship with customers and suppliers.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Improvement in the debt coverage metrics with total debt/GCA below 7x on a sustained basis.
- Improvement in scale of operations to Rs.200 crores along with improvement in PBILDT margin above 7% on a sustained basis leading to improved liquidity for the company.

Negative factors

- Availing further debt resulting in deterioration of leverage and coverage indicators.
- Moderation in scale operations or profitability resulting in further deterioration in liquidity of the company.
- Further elongation of operating cycle beyond 150 days.

Analytical approach: Standalone

Outlook: Stable

CARE Ratings Limited (CARE Ratings) expects that the entity will benefit from its longstanding in the industry and established relationship with customers and suppliers.

Detailed description of key rating drivers:

Key weaknesses

Moderate scale of operations:

TOI moderated by 16% to Rs.154.26 crore in FY24 over FY23 on account of decrease in demand for yarn as indicated by a volume de-growth of 11.85% from 73,186 quintals (FY23) to 64,511 quintals (FY24). It was also due to absence of turnover from trading of lint against Rs.17.88 crore for FY23. The company has reported TOI of Rs.94.55 crore for H1FY25 and is projecting similar performance in H2FY25.

Low experience of current management team:

The company was incorporated on April 25, 2006, by Mr. Gajavelli Poornachandra Rao and Mr. Gajavelli Venkateshwara Rao. Both the promoters passed away and the company is currently managed by their sons who have comparatively shorter industry experience.

Moderate profitability:

Operating profitability exhibited a stable trend with a PBILDT margin within the range of 4-6% in the past three years ended FY24. It stood moderate at 5.02% during FY24, with a y-o-y moderation of 84 bps on account of increase in employee and energy costs which could not be entirely passed on to customers owing to subdued demand. Profit after Tax (PAT) margin stood modest on account of decrease in TOI coupled with increase in employee, finance, energy and depreciation costs. Return on capital employed (ROCE) stood modest at 3.8% during FY24 (PY: 6.91%) with a fixed asset turnover of 1.79x during FY24 (PY: 2.2x). Going forward, profitability is expected to improve owing to expected improvement in demand and selling price of yarn.

Marginally Weak debt coverage indicators:

Debt coverage indicators stood marginally weak, as marked by moderate Interest coverage (PBILDT/Interest) of 1.88x in FY24 (3.14x in FY23) and very high total debt to GCA (TD/GCA) of 24.36x in FY24 (9.61x in FY23). Deterioration during the year was on account of moderation in profitability and marginal increase in Working capital debt levels. Going forward, debt coverage indicators are expected to improve with expected improvement in profits.

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

Moderate capital structure:

The entity's capital structure stood moderate, as marked by an overall gearing of 1.37x as on March 31, 2024 (1.04x as on March 31, 2023) with high reliance on external debt. Its debt profile largely comprises external debt in the form of working capital and term debt. The total outside liabilities to net worth stood moderate at 1.42x as on March 31, 2024 (1.16x as on March 31, 2023). The moderation in capital structure was on account of increase in working capital borrowings. It has moderate Networth base, which stood at Rs.59.19 crore as on March 31, 2024. Going forward, the capital structure is expected to remain stable on account of adequate net worth base and controlled working capital and term debts.

Elongated operating cycle:

Working capital cycle (days) increased from 115 days (FY23) to 132 days (FY24) mainly due to increase in Average inventory period from 76 days (FY23) to 122 days (FY24). As cotton is available at cheaper price during Harvesting season i.e. November to March, most of the stock is purchased during December-March and stored for use in the future. Due to this, stock balance appears more on 31st March.

Key strengths

Longstanding in the industry and Established relationship with customers and suppliers

Although the management is relatively new in the industry, the entity has a business vintage of more than 18 years and strong customer and supplier base, which is expected to significantly support the company's growth and operations.

Favourable location of its manufacturing unit with proximity to cotton growing region

The manufacturing facility of GSMPL is located in Guntur district of Andhra Pradesh, which is a major cotton cultivating district in Andhra Pradesh. GSMPL majorly procures cotton Lint from ginneries in the surrounding locality which lowers its Procurement cost (both on the transportation and storage) & provides ready availability of raw materials.

Liquidity: Stretched

Liquidity is stretched, marked by low quick ratio, moderately high utilization of working capital limits and tightly matched GCA against debt repayments. While the current ratio was at 1.35x, the quick ratio remained low at 0.49x as on March 31, 2024. Its working capital limits of Rs.80 crores were utilised at an average of 52% during the last 12 months ended September 2024. It maintains high level of inventory. The average inventory days in last two fiscal year(s) remained high at 99 days (FY23-76 days; FY24-122 days). While net cash-flows from operations was negative by Rs.23 crore in FY24 (mainly due to purchase of inventory by utilising working capital limits), unencumbered cash and bank balance was around Rs.0.31 crore as on March 31, 2024. There have not been any instances of overdrawing and no instance of utilising ad-hoc limits.

Assumptions/Covenants: Not Applicable

Environment, social, and governance (ESG) risks: Not Applicable

Applicable criteria

[Definition of Default](#)

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

[Rating Outlook and Rating Watch](#)

[Manufacturing Companies](#)

[Financial Ratios – Non financial Sector](#)

About the company and industry

Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Consumer Discretionary	Textiles	Textiles & Apparels	Other Textile Products

Gajavelli Spinning Mills Private Limited (GSMPL) is a private limited company incorporated on April 25, 2006, by Mr. Gajavelli Poornachandra Rao and Mr. Gajavelli Venkateshwara Rao. It is into manufacturing of cotton yarns. It holds a total capacity of 35,184 Spindles. It also has a 2MW Windmill and a 1.5MW in-house solar unit for captive consumption.

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)	H1-FY25 (UA)
Total operating income	182.80	154.26	95.00
PBILDT	10.70	7.74	4.63
PAT	3.90	0.27	0.46
Overall gearing (times)	1.04	1.37	0.69
Interest coverage (times)	3.14	1.88	1.73

A: Audited UA: Unaudited; Note: these are latest available financial results

Status of non-cooperation with previous CRA:

Acuite Ratings & Research has placed the rating for the bank facilities of Gajavelli Spinning Mills Private Limited under 'INC Category' vide PR dated October 11, 2024, due to the absence of requisite information from the company.

Brickwork Ratings has placed the rating for the bank facilities of Gajavelli Spinning Mills Private Limited under 'INC Category' vide PR dated July 26, 2024, due to the absence of requisite information from the company.

ICRA has placed the rating for the bank facilities of Gajavelli Spinning Mills Private Limited under 'INC Category' vide PR dated May 28, 2024, due to the absence of requisite information from the company.

Any other information: Not Applicable

Rating history for last three years: Annexure-2

Detailed explanation of covenants of rated instrument / facility: Annexure-3

Complexity level of 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 and Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	-	91.64	CARE BB; Stable
Fund-based - LT-Term Loan	-	-	-	30-11-2026	8.36	CARE BB; Stable

Annexure-2: Rating history for 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-Cash Credit	LT	91.64	CARE BB; Stable				
2	Fund-based - LT-Term Loan	LT	8.36	CARE BB; Stable				

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

Annexure-3: Detailed explanation of covenants of rated instruments/facilities: Not Applicable**Annexure-4: Complexity level of instruments rated**

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

Annexure-5: Lender details

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

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

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About us:

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Disclaimer:

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