

Sree Lalitha Parameswari Spinning Mills Private Limited

January 31, 2025

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long-term bank facilities	65.19 (Reduced from 77.50)	CARE BBB-; Negative	Reaffirmed; Outlook revised from Stable
Short-term bank facilities	40.50	CARE A3	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

Revision in the outlook of ratings assigned to bank facilities of Sree Lalitha Parameswari Spinning Mills Private Limited (SLP) is driven by deteriorating financial risk profile due to lower-than-expected recovery in scale of operations, profitability and gross cash accruals (GCA) and stretched liquidity position. However, ratings continue to draw strength from experienced promoters, its diversified customer base, easy access to raw materials, and captive power availability. Favourable court order on the subsidies from the Andhra Pradesh (AP) government also contribute positively. However, rating strengths are offset by weak liquidity position, raw material price volatility, a moderately improving capital structure, and the working capital intensive operations. Operating in a regulated and fragmented industry introduces additional complexities for the company.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Total operating income (TOI) improving to above ₹300 crore while maintaining profit before interest, lease rentals, depreciation and taxation (PBILDT) margin of minimum 14%.
- Overall gearing improving to 0.70x.
- Notably improving operating cycle.

Negative factors

- Large debt-funded capital expenditure leading to moderating capital structure with gearing level above 1.2x.
- Significantly declining TOI or profitability by over 30% y-o-y.

Analytical approach: Standalone

Outlook: Negative

The outlook has been revised to 'Negative' due to lower-than-expected recovery in scale of operations, profits, liquidity and GCA in FY24. Though the performance is expected to improve because of easing cotton prices, it is susceptible considering high debt repayment and tightly matched accruals, which can potentially lead to moderation in the company's financial performance and liquidity profile. The outlook may be revised to 'Stable' if the company is able to achieve a better-than-envisioned operational performance, while improving its debt service coverage ratios (DSCR) and maintaining adequate liquidity. Conversely deterioration in the credit metrics shall lead to revision of ratings downwards.

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

Detailed description of key rating drivers:

Key strengths

Experienced promoters with long proven track record of operation

Incorporated in 2006, SLP is one of the leading mills in India producing high-quality medium and fine cotton yarn for both domestic and exports markets. The company is promoted by T. V. Seshagiri Rao and D. Suryaprakasa Rao, the Managing Director. D. Suryaprakasa Rao has four decades of experience in the textile industry as a cotton ginner. The spinning mill is situated near Chebrolu Donka (towards Tenali) Narakoduru, Chebrolu, Guntur District, Andhra Pradesh (AP), India.

The company's established track record and diversified customer base

SLP, a cotton yarn manufacturer producing count in range of 40-60s, has been in the industry for over 15 years. With three decades of experience from its promoters, SLP has established strong relationships with customers and suppliers both within and outside AP. In FY24, exports accounted for 12% of the company's total sales. The top five customers contributed 38% of total yarn sales in FY24 and 52% in the first half of FY25, consistently placing repeat orders.

Availability of captive power

The company has set up 8-MW Solar and 2-MW Wind power systems, and the entire power generation from the wind and solar is utilised at the spinning mill, with the company able to save on an average of ~50% on power costs. The company incurs ~₹13 crore on power every year which constitutes to 7-9% of the total sales cost. In FY24, the company has installed another solar power plant of 2-MW capacity with the total cost of ₹5 crore. Post commencement of 2-MW plant, the company is able to save ~67% of power cost which will add to improvement in increase its profitability.

Proximity of cotton-growing areas

SLP's unit is advantageously situated near major cotton-growing regions around Guntur, AP, which ensures easy access to high-quality raw materials and reduces transportation costs. The plant is also close to Khammam and Warangal, prominent cotton-growing areas in Telangana, facilitating efficient off-take. SLP sources its cotton from Guntur, Adilabad, Warangal, and Khammam, among other locations.

Comfortable capital structure and debt coverage metrics

SLP's debt profile consists of term loans, a cash credit facility, unsecured loans from promoters, and short-term loans. By considering preference shares as quasi-equity, the capital structure has improved and remains comfortable, with an overall gearing ratio of 0.84x as on March 31, 2024 (compared to 0.92x the previous year). The total outside liabilities to tangible net worth (TOL/TNW) ratio is also favourable at 0.91x as on March 31, 2024. Other debt metrics remained at moderate level, with a total debt/earnings before interest, taxation, depreciation, and amortisation (EBITDA) ratio of 5.10x and a PBILDT interest coverage ratio of 2.12x in FY24. CARE Ratings observes, the debt metrics are expected to improve further as no new capex is being planned in near future.

Key weaknesses

Declining scale of operation with moderation in profitability

The company's TOI declined by ~8% to ₹188 crore in FY24 (previous year: ₹205 crore), primarily due to reduced demand in the export market, leading to lower volumes and raw material prices remained higher. Consequently, the spread narrowed, resulting in a lower operating margin of 9.51% in FY24 (compared to 13.85% in FY23) and a profit-after-tax (PAT) margin of 2.85% in FY24 (down from 4.68% in FY23). In absolute terms, the operating profit reduced to ₹17.88 crore in FY24 from ₹28.45 crore in FY23, and PAT decreased to ₹5.36 crore in FY24 from ₹9.61 crore in FY23. However, the implementation of a 2-MW solar plant in FY24 helped reduce power costs. CARE Ratings observes, with the moderation in cotton prices and increased cotton demand in the first nine months of FY25, the operating margin is expected to improve from current levels for FY25.

Working capital intensive nature of operations

Spinning is primarily a working capital intensive business, as the raw material availability is seasonal which results in high inventory holding period. The procurement is primarily on cash basis which results in high working capital utilisation in the months of availability which is December to April. The operating cycle of SLP elongated to 185 days for FY24 from 172 days in FY23 considering higher inventory holding period of up to 149 days against 139 days for FY23. The average working capital utilisation levels of the company were at satisfactory levels at 52% for the 12 months ended December 2024.

Power availability and subsidy from AP Government on power tariff, though delayed

The power supply scenario in AP region got better after the reorganisation of the state, and the company is getting adequate power supply for its facility. The AP Government is extending a subsidy ₹1.00 per unit for spinning and modern ginning. As spinning is a power intensive activity, the power subsidy has helped the company to reduce its power cost to a great extent. The company follows policy of recognising grants receivable from government on cash basis owing to uncertainty in receipt of amount as on balance sheet date.

However, due to change in government there is significant delay in the release of subsidies from the state government and the total of ₹27.99 crore is outstanding (Power subsidy+ wind capita of ₹18.79 crore and Interest subsidy of ₹9.19 crore). The favourable court order directing payment of subsidy poses a positive impact. Timelines of receipt of such subsidies bear significance from credit perspective.

Profitability susceptible to volatile cotton prices

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

Presence in highly fragmented and competitive industry with limited product differentiation

The yarn manufacturing industry in India is highly fragmented and dominated by several small-scale units, leading to high competition in the industry. Smaller standalone units are more vulnerable to intense competition and have limited pricing flexibility, which constrains their profitability compared to larger integrated textile companies, who have better efficiencies and pricing power considering their scale of operations. Due to fragmented nature of the industry, the ability to pass on increase in raw material prices to end-customers is limited and is usually accompanied by a time lag.

Liquidity: Stretched

Liquidity is characterised by stretched as lower accruals of ₹12.16 crore and lower cash and bank balance of ₹0.88 crore with against scheduled debt repayment of ~₹15.20 crore in FY25. The average utilisation of month-end balance of working capital borrowings stood ~52%. The current ratio of the company also remains comfortable at 1.56x as on March 31, 2024, against 1.73x as on March 31, 2023, as well the cash flow from operations remained positive.

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](#)

[Cotton Textile](#)

[Short Term Instruments](#)

About the company and industry

Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Consumer discretionary	Textiles	Textiles & apparels	Other textile products

Incorporated in 2006, SLP is one of the leading mills in India producing high-quality medium and fine cotton yarn for both domestic and exports market. The company is promoted by T. V. Seshagiri Rao and D. Suryaprakasa Rao, the Managing Director. The spinning mill is situated near Chebrolu Donka (towards Tenali) Narakoduru, Chebrolu, Guntur District, AP, India. The company has the capacity of 47,520 spindles and possesses fully-integrated facilities to consequently spin outworld-standard products. The company produces high-quality medium and fine count cotton yarn for premium consumers in India and abroad and manufactures 100% combed compact yarns usually used in premium shirting in the count of 40s and 60s. The company has set up 10-MW solar

PV power plant at Nellore District in AP, 1-MW rooftop solar plant in spinning unit and 2 MV of wind power with a view to reduce the power and fuel cost with green initiative, and the same is 100% captive.

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)	9MFY25 (UA)
Total operating income	205.38	188.04	130
PBILDT	28.45	17.88	N.A.
PAT	9.61	5.36	N.A.
Overall gearing (times)	0.92	0.84	N.A.
Interest coverage (times)	4.31	2.12	N.A.

A: Audited UA: Unaudited; N.A.: Not available Note: these are latest available financial results

Status of non-cooperation with previous CRA: Brickworks has continued the rating assigned to bank facilities of SLP into Issuer Not Cooperating category vide press release dated July 05, 2024, due to its inability to carry out a review in the absence of the 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		-	-	-	30.66	CARE BBB-; Negative
Fund-based - LT-Term Loan		-	-	31-03-2029	34.53	CARE BBB-; Negative
Fund-based - ST-Mortgage Loan facility/ Asset backed financing		-	-	-	30.00	CARE A3
Fund-based - ST-Standby Line of Credit		-	-	-	4.50	CARE A3
Non-fund-based - ST-ILC/FLC		-	-	-	6.00	CARE A3

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-Term Loan	LT	34.53	CARE BBB-; Negative	-	1)CARE BBB-; Stable (26-Mar-24)	1)CARE BBB-; Stable (09-Mar-23)	-
2	Fund-based - LT-Cash Credit	LT	30.66	CARE BBB-; Negative	-	1)CARE BBB-; Stable (26-Mar-24)	1)CARE BBB-; Stable (09-Mar-23)	-
3	Non-fund-based - ST-ILC/FLC	ST	6.00	CARE A3	-	1)CARE A3 (26-Mar-24)	1)CARE A3 (09-Mar-23)	-
4	Fund-based - ST-Mortgage Loan facility/ Asset backed financing	ST	30.00	CARE A3	-	1)CARE A3 (26-Mar-24)	-	-
5	Fund-based - ST-Standby Line of Credit	ST	4.50	CARE A3	-	1)CARE A3 (26-Mar-24)	-	-

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
3	Fund-based - ST-Mortgage Loan facility/ Asset backed financing	Simple
4	Fund-based - ST-Standby Line of Credit	Simple
5	Non-fund-based - ST-ILC/FLC	Simple

Annexure-5: Lender details

To view 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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