

Sri Lakshmi Godavari Spinning Mills Limited

April 30, 2021

Ratings

Facilities/Instruments	Amount (Rs. crore)	Ratings	Rating Action
Long Term Bank Facilities	65.09	CARE BB-; Stable; ISSUER NOT COOPERATING* (Double B Minus; Outlook: Stable ISSUER NOT COOPERATING*)	Rating continues to remain under ISSUER NOT COOPERATING category and Revised from CARE BB; Stable; (Double B; Outlook: Stable)
Short Term Bank Facilities	8.18	CARE A4; ISSUER NOT COOPERATING* (A Four ISSUER NOT COOPERATING*)	Rating continues to remain under ISSUER NOT COOPERATING category and Revised from CARE A4+; (A Four Plus)
Total Bank Facilities	73.27 (Rs. Seventy-Three Crore and Twenty- Seven Lakhs Only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

CARE had, vide its press release dated March 18, 2020, placed the ratings of Sri Lakshmi Godavari Spinning Mills Limited (SLGSML) under the 'issuer non-cooperating' category as SLGSML had failed to provide information for monitoring of the rating. SLGSML continues to be non-cooperative despite repeated requests for submission of information through e-mails, phone calls and an email dated April 21, 2021, April 22, 2021 and April 23, 2021. In line with the extant SEBI guidelines, CARE has reviewed the rating on the basis of the best available information which however, in CARE's opinion is not sufficient to arrive at a fair rating.

Users of this rating (including investors, lenders and the public at large) are hence requested to exercise caution while using the above ratings.

The ratings have been revised on account of non-availability of requisite information due to non-cooperation of Sri Lakshmi Godavari Spinning Mills Limited with CARE's effort to undertake a review of the outstanding ratings as CARE views information availability risk as key factor in its assessment of credit risk profile.

Detailed description of the key rating drivers

At the time of last rating on March 18, 2020 the following were the rating strengths and weaknesses:

Key Rating Weaknesses

Decline in the total operating income and profitability margins during FY20

The total operating income of the company has decreased by 12.03% from Rs.218.05 crore during FY19 to Rs.191.81 crore during FY20. The PBILDT margin of the company declined marginally by 48 bps from 8.28% during FY19 to 7.80% during FY20. The PAT margin of the company has decreased by 120 bps from 2.12% during FY19 to 0.92% during FY20.

Volatility in cotton prices thereby impacting profitability margins

Prices of raw cotton are volatile in nature and depend upon factors like crop yield, international demand-supply scenario, and inventory carried forward of the previous year. The said volatility impacts the operating margin of the company.

Moderated capital structure and debt coverage indicators

The capital structure stood moderate marked by the overall gearing of the company improved from 1.81x as on March 31, 2019 to 1.39x as on March 31, 2020 on account of scheduled repayment of term loan and accretion of the profit to the net worth of the company.

The debt coverage indicators remained weak marked by such as term debt to GCA and total debt to GCA remained high and improved to 4.32x and 10.87x as on March 31, 2020 from 5.09x and 11.07x as on March 31, 2019 at the back of decrease in debt level. Furthermore, The PBILDT interest coverage ratio of the company deteriorated marginally and remains moderate at 2.19x during FY20 from 2.29x during FY19.

Working capital intensive nature of operations

The operating cycle improved to 67 days in FY20 from 74 days in FY19 on account of deterioration in average creditor days from 20 days in FY19 to 32 days in FY20.

Presence in highly competitive and fragmented industry

SLGSML is engaged in the spinning of cotton yarn which involves very limited value addition and hence results in thin profitability & lower bargaining power. Further, the cotton prices in India are highly regulated by Government through MSP

(Minimum Support Price) fixed by government, though due to huge demand-supply mismatch the prices have rarely been below the MSP.

Key Rating Strengths

Experienced Promoters

The Managing Director and promoter, Mr. Nageswara Rao has been in the cotton industry for more than a decade. His experience has helped the company garner good relationships with the suppliers and customers. The promoters also have business experience of close to two decades in the area.

Location advantage with availability of raw material

SLGSML has its manufacturing facilities at Perecherla, Guntur District which is one the major cotton growing areas in Andhra Pradesh. Availability of raw material is not expected to be an issue as the company procures major portion of its raw materials (cotton lint) from the registered dealers in and around Guntur.

Analytical approach: Standalone

Applicable Criteria

[Policy in respect of Non-cooperation by issuer](#)

[Criteria on assigning Outlook to Credit Ratings](#)

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

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

[Rating Methodology-Manufacturing Companies](#)

[Rating Methodology – Cotton yarn](#)

About the Company

Sri Lakshmi Godavari Spinning Mills Limited (SLGSML) 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 at a project cost of Rs. 36 crore 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 Mineral Water, Finance and Real Estate for close to two decades.

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	218.05	191.81
PBILDT	18.06	14.97
PAT	4.63	1.77
Overall gearing (times)	1.81	1.39
Interest coverage (times)	2.29	2.19

A: Audited

Status of non-cooperation with previous CRA: Not Applicable

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 for this company: Annexure 4

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	-	-	September 2021	20.09	CARE BB-; Stable; ISSUER NOT COOPERATING*
Fund-based - LT-Cash Credit	-	-	-	45.00	CARE BB-; Stable; ISSUER NOT COOPERATING*
Non-fund-based - ST-Bank Guarantees	-	-	-	0.18	CARE A4; ISSUER NOT COOPERATING*
Non-fund-based - ST-Forward Contract	-	-	-	8.00	CARE A4; ISSUER NOT COOPERATING*

*Issuer did not cooperate; Based on best available information

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	20.09	CARE BB-; Stable; ISSUER NOT COOPERATING*	-	-	1)CARE BB; Stable; ISSUER NOT COOPERATING* (18-Mar-20)	1)CARE BB; Stable (26-Feb-19) 2)CARE BB; Stable (04-Apr-18)
2.	Fund-based - LT-Cash Credit	LT	45.00	CARE BB-; Stable; ISSUER NOT COOPERATING*	-	-	1)CARE BB; Stable; ISSUER NOT COOPERATING* (18-Mar-20)	1)CARE BB; Stable (26-Feb-19) 2)CARE BB; Stable (04-Apr-18)
3.	Non-fund-based - ST-Bank Guarantees	ST	0.18	CARE A4; ISSUER NOT COOPERATING*	-	-	1)CARE A4+; ISSUER NOT COOPERATING* (18-Mar-20)	1)CARE A4+ (26-Feb-19) 2)CARE A4+ (04-Apr-18)
4.	Non-fund-based - ST-Forward Contract	ST	8.00	CARE A4; ISSUER NOT COOPERATING*	-	-	1)CARE A4+; ISSUER NOT COOPERATING* (18-Mar-20)	1)CARE A4+ (26-Feb-19) 2)CARE A4+ (04-Apr-18)

*Issuer did not cooperate; Based on best available information

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities: Not applicable

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

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Cash Credit	Simple
2.	Fund-based - LT-Term Loan	Simple
3.	Non-fund-based - ST-Bank Guarantees	Simple
4.	Non-fund-based - ST-Forward Contract	Simple

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

Contact us

Media Contact

Name-Mradul Mishra
Contact no. – +91-22-6837 4424
Email ID – mradul.mishra@careratings.com

Analyst Contact

Group Head Name – D Naveen Kumar
Group Head Contact no-040-67937416
Group Head Email ID - dnaveen.kumar@careratings.com

Relationship Contact

Name: Ramesh Bob
Contact no. : +91 90520 00521
Email ID: ramesh.bob@careratings.com

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