

Erode Sri Palani Murugan Spinning Mills Private Limited
 October 03, 2019

Ratings

Facilities	Amount (Rs. crore)	Ratings ¹	Remarks
Long-term Bank Facilities	14.67	CARE BB- ; Stable outlook (Double B Minus : Stable)	Revised from CARE BB; Stable (Double B : Stable)
Short-term Bank Facilities	0.33	CARE A4 (A Four)	Reaffirmed
Total Facilities	15.00 (Rupees fifteen crore only)		

Detailed Rationale & Key Rating Drivers

The revision in ratings assigned to the bank facilities of Erode Sri Palani Murugan Spinning Mills Private Limited(ESPMSPL) factors in decline in total operating income and profitability margins along with switch over of nature of business from cotton yarn to rayon yarn. The ratings continue to be tempered by working capital intensive nature of operations, highly fragmented industry. The ratings, however, continue to derive strength from Long track record of the company and experience of the promoters for more than one decade in textile industry, Satisfactory capital structure and debt coverage indicators and stable outlook of textile industry.

Going forward, the ability of the company to improve its scale of operations, sustain profitability margins amidst volatility in raw material prices, maintain capital structure and effective management of working capital requirements remains the key rating sensitivities.

Detailed description of the key rating drivers**Key Rating Weakness****Small Scale of operation with moderate net worth base**

The scale of operation of the company stood small marked by total operating income which has marginally declined from Rs.33.39 crore in FY18 to Rs.31.04 crore in FY19(Prov.). However, the company's size of operation remained moderate marked by net worth base of Rs.13.09 crore in FY18 marginally increased to Rs. 13.92 crore in FY19(prov.).

Decline in profitability margins

The PBILDT margin of the company had marginally declined from 11.87% in FY18 to 11.42% in FY19(Prov.). Further the PAT margin had declined by 5 bps in FY19(Prov.).

Working capital intensive nature of operation

The operating cycle of the company though improved but stood elongated at 114 days in FY19(Prov.) as against 150 days in FY18.

Highly fragmented and competitive business segment due to presence of numerous players

The company is engaged into a fragmented business segment and competitive industry. The market consists of several small to medium-sized company's that compete with each other along with several large enterprises..

Key Rating Strengths**Long track record of the company and experience of the promoters for more than one decade in textile industry**

Erode Sri Palani Murugan Spinning Mills Private Limited (ESPMSPL) was promoted by Mr. E. Palanisamy (Managing Director) and others. Mr.E.Palanisamy has more than 20 years of experience in textile industry. Mr.S.Palanisamy (Director), Mr.P.Pramod Kumar (Director), Mr.M.Kandasamy (Director) and Mr.R.Sivalingam (Director) have more than 15 years of experience in textile industry. Mr.P.Pavathal (Director) has more than 10 years of experience in textile industry. Due to long experience of the promoters, they were able to establish long term relationship with clientele which will help in growing the business in near future.

Satisfactory capital structure and debt coverage indicators

The capital structure of the company marked by overall gearing stood satisfactory at 1.12x as of March 31, 2018 and marginally improved to 1.02x as of March 31, 2019 (prov.). The debt coverage indicators marked by total debt/GCA stood

¹Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.

satisfactory at 6.46x in FY19(Prov.) marginally improved from 6.47x in FY18. Furthermore, the interest coverage ratio remained satisfactory at 2.64x in FY19(Prov.) despite decline from 2.80x in FY18.

Stable outlook of Textile industry

The future for the Indian textile industry looks promising, buoyed by both strong domestic consumption as well as export demand. With consumerism and disposable income on the rise, the retail sector has experienced a rapid growth. The Government of India has started promotion of its 'India Handloom' initiative on social media like Facebook, Twitter and Instagram with a view to connect with customers, especially youth, in order to promote high quality handloom products. The Revised Restructured Technology Up gradation Fund Scheme (RRTUFS) covers manufacturing of major machinery for technical textiles for 5 per cent interest reimbursement and 10 per cent capital subsidy in addition to 5 per cent interest reimbursement also provided to the specified technical textile machinery under RRTUFS.

Liquidity -Stretched

The current ratio of the company had deteriorated from 1.01x as of March 31, 2018 to 0.99x as of March 31, 2019(Prov.) and remained stretched. The cash and cash equivalents stood at Rs.0.10 crore as on March 31, 2019(Prov.) as against Rs.0.15 crore as on March 31, 2018. For the 12 months ended August 31, 2019, the unutilized working capital stood at 10 %.

Analytical Approach: Standalone

Applicable Criteria:

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

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

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

[Rating Methodology-Manufacturing Companies](#)

[Criteria for Short Term Instruments](#)

About the Company

Erode Sri Palani Murugan Spinning Mills Private Limited (ESPMSPL) is a Tamil Nadu based company, which was incorporated in 2006 and promoted by Mr. E. Palanisamy and others as a Private Limited company. The company had switched over its nature of business from manufacturing of cotton yarn to rayon yarn.

Brief Financials (Rs. crore)	FY18 (A)	FY19(P)
Total operating income	33.39	31.04
PBILDT	3.96	3.54
PAT	0.90	0.82
Overall gearing (times)	1.12	1.02
Interest coverage (times)	2.80	2.64

A: Audited; P:Provisional

Status of non-cooperation with previous CRA: CRISIL B+;Stable/CRISIL A4 Issuer did not cooperate; based on best-available information. PR date: June 20, 2019

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 2025	4.17	CARE BB-; Stable
Non-fund-based - ST-Bank Guarantees	-	-	-	0.33	CARE A4
Fund-based - LT-Cash Credit	-	-	-	10.50	CARE BB-; Stable

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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - LT-Term Loan	LT	4.17	CARE BB-; Stable	-	1)CARE BB; Stable (10-Oct-18)	-	-
2.	Non-fund-based - ST-Bank Guarantees	ST	0.33	CARE A4	-	1)CARE A4 (10-Oct-18)	-	-
3.	Fund-based - LT-Cash Credit	LT	10.50	CARE BB-; Stable	-	1)CARE BB; Stable (10-Oct-18)	-	-

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. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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