Hindustan Spinners

April 3, 2020

Ratings

Facilities	Amount (Rs. crore)	Rating1	Rating Action
Long term Bank Facilities	36.03 (Reduced from 36.37)	**CARE BBB-; Stable (Triple B Minus; Outlook: Stable)**	Reaffirmed
Short term Bank Facilities	2.71 (Reduced from 5.63)	**CARE A3 (A Three)**	Reaffirmed
Total Facilities	**38.74 (Rupees Thirty Eight Crore and Seventy Four Lakh Only)**	-	

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Hindustan Spinners factors growth in total operating income and healthy profitability margins, comfortable overall gearing and satisfactory debt protection metrics during FY19 (refers to period April 01 to March 31) and satisfactory operating cycle.

The ratings continues to be tempered by susceptibility to volatility in raw material prices, and exposure to intense competition in the cotton yarn industry coupled with partnership nature of business.

However, the rating continues to derive benefits from long track record of the entity and intensive industry experience of the partners, proximity of the manufacturing plant to cotton cultivation areas, and benefits realized from captive power sources.

Rating sensitivities

Positive factors

- Significant improvement in scale of operations with TOI increasing to Rs 150 crore and above while maintain a PBILDT margin of minimum 15% on a sustained basis.
- Improvement in operating cycle and receivable period to less than a month without stretching its creditor days on a sustained basis in future years.

Negative factors

- Decline in the operating profitability with PBILDT margin falling below 12% in future years.
- Significant capital withdrawal by partners or increase in debt levels leading to weakening of the capital structure represented by overall gearing increasing beyond 1.2x and TDGCA increasing beyond 5x, going forward.

Detailed description of the key rating drivers

Key Rating Strengths

Long track record of the entity and intensive industry experience of the partners

HS is promoted by Mr. D.Selvarajan (Managing Partner) and his wife, Mrs. S. Shanthi. The partners have intensive experience in the cotton industry. Mr. D. Selvarajan assisted by a team of professionals run the day-to-day activities of the firm. Both the partners have more than four decades of experience in the cotton spinning sector. He is actively accompanied by his spouse, who has more than three decades of experience in the said field. Further, the long term presence of the partners in the market has aided in establishing customer relationship.

Growth in total operating income and healthy profitability margins

The firm clocked total operating income of Rs. 131.22 Crore viz a viz Rs. 121.61 Crore in FY18, registering 7.90% of growth aided primarily by increased yarn sales. The operating profit margin of the firm remained healthy and improved in FY19 on the back of increase in the sales volume along with improved sales realization. The PBILDT margin has improved by 100 bps from 10.51% in FY18 to 11.51% in FY19. However, PAT margin has declined in FY19. Although, this decline in PAT margin in FY19 takes into account primarily the impact of deferred tax inclusion during FY18. Apart from this, the higher depreciation provisions on the back of fixed asset additions, and increase in interest costs owing to term debts availed for purchase of fixed assets has impacted the PAT margin to some extent, reports 1.82% in FY19 as against 8.29% in FY18.

Benefits realized from captive power sources

Captive power reduces the dependency on the grid, reduces the cost of electricity which is an input to production processes, and surplus electricity can also be sold to the grid, thus bringing in multiple benefits. HS has 10 wind mills with total power generation capacity of 9.65 MW (as on February 2020) at various locations of Tamil Nadu. The firm meets around 95% of its power requirement from wind mills and the remaining from third parties and TANGEDCO. In addition to this, the firm also has its own 2KW solar power plant. Due to this, the firm has managed to setting off its power expenses to some extent.

Comfortable overall gearing and satisfactory debt protection metrics during FY19

[1]*Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*

Overall gearing of the firm stood at 0.98x as on March 31, 2019 as against 0.74x as on March 31, 2018 indicating marginal deterioration however continues to remain comfortable. This accounts increase in the total debt on the back of term debts availed for CAPEX and windmill purchase, as well as increase in working capital facility as on balance sheet date.
The debt coverage indicators also remained satisfactory, with TD/GCA at 4.27x as on March 31, 2019 which deteriorated moderately from 3.30x as on March 31, 2018, on account of aforesaid fact. Further, the interest coverage ratio remained comfortable at 5.43x during FY19 (PY: 5.92x).

Satisfactory Operating cycle

The operating cycle of the firm stood satisfactory at 40 days in FY19 which has been improved from previous fiscal (PY : 52 days) on the back of comfortable collection, creditor's and inventory holding periods. This has kept the firm to be less reliance on working capital bank borrowings witnessed by 40% of average utilization for the past twelve months ended February 2020.

Proximity of the manufacturing plant to cotton cultivation areas

The spinning facility of the firm is located in proximity to major cotton cultivation areas of Tamil Nadu, which results in ease of accessing of raw materials at competitive prices and minimal logistical expenses.

Key Rating Weaknesses

Susceptibility to volatility in raw material prices

Prices of raw cotton are highly volatile in nature and depend upon the factors like area under cultivation, crop yield, international demand-supply scenario, export quota decided by the government and inventory carry forward of the previous year. Hence, the profitability margins of the company are susceptible to fluctuation in raw material prices.

Exposure to intense competition in the cotton yarn industry coupled with partnership nature of business

HS operates in a highly fragmented and unorganized market of the textile industry marked by large number of small sized players. The industry is characterized by low entry barrier due to minimal capital requirement and easy access to customers and supplier. Also, the presence of big sized players with established marketing & distribution network results into intense competition in the industry.
A business run by partners also poses a risk of heavy burden, i.e. an inherent risk of capital withdrawal, at a time of personal contingency which can adversely affect the capital structure of the firm. Moreover, the partnership firms have restricted access to external borrowing which limits their growth opportunities to some extent. There have been withdrawals to the tune of Rs. 0.19 Crore during FY19.

Liquidity analysis: *Adequate*

The firm maintains satisfactory cash conversion cycle of 40 days which stood comfortable in line with other peers in the industry. With this, the firm could manage its day to day operations through internal accruals and relying minimal on its working capital facilities. Its unutilized bank lines are more than adequate to meet its incremental working capital needs over the next one year. The average utilization of working capital facility for the past twelve months ended February 2020 stood at 40%. Further the liquidity is adequate marked by sufficient accruals (Rs. 12.17 crore in FY19) against moderate repayment obligations (Rs.8.27crore in FY20) and cash balance to the tune of Rs.0.77 crore as on March 31, 2019.

Analytical approach: Standalone

Applicable criteria

Rating Methodology - Manufacturing Companies
Rating Methodology for Cotton Textile Manufacturing
Financial ratios – Non-Financial Sector
Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings
Rating Criteria on Short Term Instruments
CARE's Policy on Default Recognition

About the Firm

Hindustan Spinners (HS) is promoted by two partners Mr. D.Selvarajan (Managing Partner) and his wife, Mrs. S. Shanthi in the year 1973. The promoters, assisted by a team of professionals run the day-to-day activities of the firm. The firm is engaged in cotton spinning, manufacturing of cotton yarns upto 40 count, at its two manufacturing facilities, located at Mettupalayam Road (Unit-I) and Karamadai (Unit-II), with an aggregate installed capacity of 51264 spindles (as on February 29, 2020). Additionally, the firm has a captive power generating windmills (10 nos) in the places of Tirunelveli, Kanyakumari and Coimbatore districts, with capacity of 9.65MW which is sufficient to meet its power requirements.

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	121.61	131.22
PBILDT	12.79	15.10
PAT	10.09	2.39
Overall gearing (times)	0.74	0.98
Interest coverage (times)	5.92	5.43

A-audited

Status of non-cooperation with previous CRA: *ICRA has suspended its rating vide press release dated November 2016 on account of its inability to carry out a rating surveillance due to non-cooperation from the firm.*
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	-	-	February 2026	17.53	CARE BBB-; Stable
Fund-based - LT-Cash Credit	-	-	-	14.00	CARE BBB-; Stable
Non-fund-based - ST-Bank Guarantees	-	-	-	2.71	CARE A3
Fund-based - LT-Term Loan	-	-	April 2023	4.50	CARE BBB-; 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	17.53	CARE BBB-; Stable	-	1)CARE A3 (27-Feb-19)	-	-
2.	Fund-based - LT-Cash Credit	LT	14.00	CARE BBB-; Stable	-	1)CARE BBB-; Stable (27-Feb-19)	-	-
3.	Non-fund-based - ST-Bank Guarantees	ST	2.71	CARE A3	-	1)CARE A3 (27-Feb-19)	-	-
4.	Fund-based - LT-Term Loan	LT	4.50	CARE BBB-; Stable	-	1)CARE BBB-; Stable (27-Feb-19)	-	-

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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