

SPS Spinning Mills

February 12, 2018

Rating

Facilities	Amount (Rs. Crore)	Rating ¹	Rating Action
Long-term Bank Facilities	6.16	CARE BB; Stable (Double B; Outlook: Stable)	Assigned
Total Facilities	6.16 (Rupees Six crore and Sixteen lakh only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating assigned to the bank facilities of SPS Spinning Mills (SPSSM) is tempered by small scale of operations with fluctuating profitability margins, presence in highly fragmented cotton spinning sector, working capital intensive nature of operations and partnership nature of constitution.

However, the rating derives comfort from increasing total operating income during review (FY15-FY17, FY refers to period April 01 to March 31) period, long experience of promoters with established track record of entity, comfortable capital structure and satisfactory debt coverage metrics and operating cycle.

Going forward, the company's ability to improve its scale of operations, profitability margins and efficiently utilize its working capital requirements remain its key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Weaknesses

Small scale of operations with fluctuating profitability margins

The operations of the company is small marked by TOI of Rs.19.20 crore and low networth of Rs.3.08 crore as on March 31, 2017. PBILDT margin remained fluctuating during the review period on account of fluctuation in the raw material prices. PBILDT margin declined from 5.18% in FY16 to 4.85% in FY17 due to increase in raw materials cost. PAT margin also stood fluctuating on back of fluctuation in PBILDT in absolute terms. However, PAT margin improved from 1.49 in FY15 to 1.57 in FY17 due to increase in PBILDT.

Working capital intensive nature of operations

SPSSM procures cotton from manufacturers in and around Maharashtra and Karnataka either on immediate payment or through cheque and avails a credit period of around 20 - 30 days from its suppliers. SPSSM is dependent on its working capital facilities for purchasing its raw material supply. The average utilization of cash credit facility stood around 90% for last 12 months ended December 2017.

Presence in a highly fragmented cotton spinning sector

Indian cotton textile value chain involves three stages cultivation, spinning and weaving. The cotton is grown across the country and there is no entry barrier on the cultivation of cotton. The spinning segment is fairly organized due to its capital intensiveness. But, the fragmentation in the spinning segment is on a rise due to the declining number of spindles required for setting up a mill. Furthermore, the Indian textile industry also faces competition from the low cost countries

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

like China and Bangladesh. The relatively low labour cost has benefited the Chinese and Bangladesh manufacturer and weakened the cost competitiveness of Indian exporter.

Partnership nature of constitution

SPSSM is constituted as a partnership firm wherein it is exposed to frequent withdrawal of partners' capital and resultant erosion of the net worth resulting in lower capital base despite the firm being able to generate sufficient profits in the past.

Key Rating Strengths

Long experience of promoters with established track record of entity

SPSSM was established in the year 2003 and holds track record for more than a decade. The partners have long term experience in spinning mills business for more than two decades. Mr. T. Senniappan who is a Managing Partner has more than two decades of experience in spinning mill business from working with one of his relative's concern SPS Spinners. He is taking care of all the operational activities in the concern. Mr. P. Palanisamy has experience in manufacturing industry for more than two decades is likely to benefit the firm. Mrs. P. Rajamani who looks after the day to day activities of the firm has around 14 years of experience in the same line of business.

Increasing total operating income during review period

The total operating income of the company grew from Rs.13.37 crore in FY15 to Rs.19.24 crore in FY17 at a CAGR of about 20% on account of increased orders received, efficient capacity utilisation and increased demand for cotton yarn during the review period. SPSSM reported revenue of Rs. 14.70 crore for 9MFY18.

Comfortable capital structure and satisfactory debt coverage indicators

The capital structure of SPSSM marked by overall gearing stood comfortable during the review period (FY15-FY17) in the range of 0.60x – 0.89x on account of low debt level and increasing networth on account year-on-year accretion of profit. However, overall gearing ratio deteriorated from 0.60x in FY15 to 0.99x in FY16 and improved to 0.89x in FY17 on account of variation in working capital facility utilisation levels as on accounts closing date. Debt equity ratio also stood comfortable and stood in the range of 0.03x-0.02x during the review period (FY15-FY17) on account of negligible term debt coupled with accretion of profits to tangible net worth. Interest coverage ratio stood comfortable at 3.52x in FY17 on account of low interest expenses coupled with high PBILDT. However, Total debt/GCA of the firm stood satisfactory at 4.13x in FY17 due to satisfactory cash accruals and low debt levels.

Satisfactory operating cycle

SPSSM provides its customers' an average credit period upto 2 months to ensure steady flow of orders. Hence, average collection period of SPSSM stood at 44 days in FY16 and improved to 42 days in FY17 on account of timely receipt of payments from customers. Whereas average inventory period stood at 30 days in FY17, though it has declined from 25 days in FY16 as against 30 days in FY17 remained comfortable. The inventory mainly consists of raw materials which are stored based on its seasonal availability and work in progress goods. SPSSM avails credit period of 20 – 30 days from its suppliers and the average creditor's period in FY17 stood at 22 days, however it has declined from 27 days in FY16 on account of prompt payment of dues. Due to the above said factors, the operating cycle of the firm stood comfortable at 48 days. The constant growth in demand and timely supply of production and reaching the goods to its end users have contributed in maintaining a comfortable operating cycle for SPSSM during the review period (FY15-FY17).

Analytical Approach: Standalone

Applicable criteria

Criteria on assigning Outlook to Credit ratings

CARE's policy on Default Recognition

Financial Ratios – Non-Financial Sector

Criteria for Manufacturing Companies

About the Company

SPS Spinning Mills (SPSSM) was established in 2003 as a Partnership firm by Mr. T. Senniappan, Mr. P. Palanisamy & Mrs. P. Rajamani. The firm is engaged in spinning of cotton yarn (60's count) with an installed capacity of 4500 Kg/day as on January 08, 2018. It has its registered office and two manufacturing facilities located at Coimbatore, Tamilnadu. The firm's revenue is realised from sale of three types of end products namely cone yarn (75%), hank yarn (17%) and process waste (8%). Cone yarn is processed by power loom weavers, hunk yarn is processed by handloom weavers and waste which are sold are further re-processed to cotton. The end products are supplied to weavers who are located in and around Maharashtra & Uttar Pradesh. The firm purchases 20% of wind energy for captive consumption from Senthilvel Wind Farms and balance is purchased from Tamilnadu Electricity Board. The firm procures its main raw material, Cotton, from the suppliers located in Maharashtra & Karnataka.

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)
Total operating income	15.78	19.24
PBILDT	0.82	0.93
PAT	0.24	0.30
Overall gearing (times)	0.99	0.89
Interest coverage (times)	3.39	3.52

A: Audited

Status of non-cooperation with previous CRA: Nil

Any other information: Not applicable

Rating History for last three years: Please refer Annexure-2

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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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	-	-	August 2022	1.11	CARE BB; Stable
Fund-based - LT-Term Loan	-	-	March 2023	2.05	CARE BB; Stable
Fund-based - LT-Cash Credit	-	-	-	3.00	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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Fund-based - LT-Term Loan	LT	1.11	CARE BB; Stable	-	-	-	-
2.	Fund-based - LT-Term Loan	LT	2.05	CARE BB; Stable	-	-	-	-
3.	Fund-based - LT-Cash Credit	LT	3.00	CARE BB; Stable	-	-	-	-

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