

SPS Spinning Mills

February 14, 2019

Rating

Facilities	Amount (Rs. Crore)	Rating ¹	Rating Action
Long-term Bank Facilities	5.63 (Reduced from Rs.6.16 Crore)	CARE BB; stable; (Double B ; Outlook : Stable)	Reaffirmed
Total Facilities	5.63 (Rupees Five crore and Sixty Three Lakhs 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) continues to be tempered by small scale of operations with fluctuating profitability margins, working capital intensive nature of operations, presence in highly fragmented cotton spinning sector and partnership nature of constitution.

However, the rating derives comfort from, long experience of promoters with established track record of entity, increasing total operating income during review (FY16-FY18, FY refers to period April 01 to March 31) period and Satisfactory operating cycle.

The rating also factors, deterioration in Capital Structure and debt coverage indicators.

Going forward, the company's ability to improve its scale of operations, profitability margins, improving its capital structure by timely infusion of capital, 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 scale of operations of the firm remains small with TOI of Rs. 23.47Crores in FY18. The PBILTD margin has shown growth by 352bps, with increase in absolute value of TOI. However, the PAT margin has declined by 552bps on account of increase in depreciation costs due to addition made to fixed assets coupled with increase in interest charges at the back of availment of new term loans along with enhancement in working capital limits.

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 January 2019.

Deterioration in Capital Structure and debt coverage indicators

The capital structure of the firm has deteriorated in FY18 marked by its overall gearing level at 2.33x as on March 31, 2018, from 0.89x as on March 31, 2017. The firm has borrowed two term loans for purchase of machinery, as well as the working capital limit of the firm has also enhanced from Rs. 3.00 Crores to Rs. 5.00 Crores, during FY18. With the stable tangible networth and the increased debt portion has lead the deterioration in capital structure and remained at leveraged.

With the above said factor, the debt coverage indicator of the firm also deteriorated slightly to 7.15x as on March 31, 2018, from 4.09x as on March 31, 2017. However, interest service coverage ratio stood comfortable at 3.66x in FY18, with marginal increase, on account of increased PBILDT as compared to increase in interest expenses

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

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

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 (TOI) during review period

The TOI of the firm is recorded consistent improvement at a CAGR of 14.15% between FY16-18 (refers to the period April 01 to March 31), and in FY18 it has increased by 21.98%. It accounts the increase in capacity utilization at around 95%. Further, the firm has achieved Rs.19.83 Crores as 10M – FY19 which is 84% of total sales revenue achieved by the firm in the previous year.

Satisfactory operating cycle

SPSSM provides its customers' an average credit period upto 2 months to ensure steady flow of orders. The operations of the firm continues to be working capital intensive in nature with elongated working capital cycle at 61days in FY18, from 49 days in FY17, however stood satisfactory. This accounts, the marginal increase in collection, creditors and inventory period. Cotton being a major raw material, is stocked based on the availability, and also the firm required to maintain adequate stock level, in order to maintain the customer's demand, and hence the inventory days stood moderate at 40 days in FY18. The firm offers collection period around 30-50 days to their customers, and avails credit period around 20-30 days from their suppliers. The average utilization of cash credit facility stood around 90% for last 12 months ended January 2019.

Liquidity Analysis

The liquidity position of the firm remains satisfactory marked by its current ratio and quick ratio at 1.27x and 0.79x respectively as on March 31, 2018. The firm is having liquid assets such as fixed deposits to the tune of Rs.0.10Crore and cash in hand and at bank amounts Rs. 0.04Crore, as on March 31, 2018. Further, the average unutilized portion of working capital facility stood at Rs. 0.05 Crores for 12 months ended January 2019.

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 February 08, 2019. 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, hank 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)	FY17 (A)	FY18 (A)
Total operating income	19.24	23.47
PBILDT	0.93	1.54
PAT	0.31	0.17
Overall gearing (times)	0.89	2.33
Interest coverage (times)	3.54	3.66

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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In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the company at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

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	0.86	CARE BB; Stable
Fund-based - LT-Term Loan	-	-	March 2023	1.77	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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT-Term Loan	LT	0.86	CARE BB; Stable	-	1)CARE BB; Stable (12-Feb-18)	-	-
2.	Fund-based - LT-Term Loan	LT	1.77	CARE BB; Stable	-	1)CARE BB; Stable (12-Feb-18)	-	-
3.	Fund-based - LT-Cash Credit	LT	3.00	CARE BB; Stable	-	1)CARE BB; Stable (12-Feb-18)	-	-

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CIN - L67190MH1993PLC071691