

SPS Spinning Mills

February 24, 2020

Rating

Facilities	Amount (Rs. Crore)	Ratings ¹	Rating Action
Long-term Bank Facilities	5.63	CARE BB-; Stable ISSUER NOT COOPERATING* (Double B Minus; Stable ISSUER NOT COOPERATING*)	Issuer not cooperating; Revised from CARE BB; Stable (Double B ; Outlook : Stable) On the basis of best available information
Total	5.63 (Rupees Five Crore Sixty Three Lakh only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

CARE has been seeking information from SPS Spinning Mills to monitor the rating vide e-mail communications dated December , 2019 to February , 2020 and numerous phone calls. However, despite our repeated requests, the firm has not provided the requisite information for monitoring the rating. **In line with the extant SEBI guidelines, CARE has reviewed the rating on the basis of best available information which however, in CARE's opinion is not sufficient to arrive at fair rating.** The rating on SPS Spinning Mills's bank facilities will now be denoted as **CARE BB-; Stable; ISSUER NOT COOPERATING***

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

Detailed description of the key rating drivers

At the time of last rating on February 11, 2019 the following were the rating strengths and weaknesses:

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. Though the PBILTD margin has shown growth by 352bps, with absolute value of increase in 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. 2.00 Crores to Rs. 4.00 Crores. 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 definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.

*Issuer did not cooperate; Based on best available information

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 the installed capacity of the firm as well as utilization level almost at 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 up to 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, on account of 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:**

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

[Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings](#)

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

[Rating Methodology - Manufacturing Companies](#)

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

About the Firm

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, 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)	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: Not Applicable

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	-	-	August 2022	0.86	CARE BB-; Stable; ISSUER NOT COOPERATING* Issuer not cooperating; Revised from CARE BB; Stable on the basis of best available information
Fund-based - LT-Term Loan	-	-	March 2023	1.77	CARE BB-; Stable; ISSUER NOT COOPERATING* Issuer not cooperating; Revised from CARE BB; Stable on the basis of best available information
Fund-based - LT-Cash Credit	-	-	-	3.00	CARE BB-; Stable; ISSUER NOT COOPERATING* Issuer not cooperating; Revised from CARE BB; Stable on the basis of best available information

*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 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	0.86	CARE BB-; Stable; ISSUER NOT COOPERATING* Issuer not cooperating; Revised from CARE BB; Stable on the basis of best available information	-	1)CARE BB; Stable (14-Feb-19)	1)CARE BB; Stable (12-Feb-18)	-	
2.	Fund-based - LT-Term Loan	LT	1.77	CARE BB-; Stable; ISSUER NOT COOPERATING* Issuer not cooperating; Revised from CARE BB; Stable on the basis of best available information	-	1)CARE BB; Stable (14-Feb-19)	1)CARE BB; Stable (12-Feb-18)	-	
3.	Fund-based - LT-Cash Credit	LT	3.00	CARE BB-; Stable; ISSUER NOT COOPERATING* Issuer not cooperating; Revised from CARE BB; Stable on the basis of best available information	-	1)CARE BB; Stable (14-Feb-19)	1)CARE BB; Stable (12-Feb-18)	-	

*Issuer did not cooperate; Based on best available information

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.

Contact us

Media Contact

Mradul Mishra

Contact no. +91-22-6837 4424

Email ID – mradul.mishra@careratings.com

Analyst Contact

Group Head Name – Nivedita Ghayal

Group Head Contact no. - 040- 40102030

Group Head Email ID - nivedita.ghayal@careratings.com

Business Development Contact

Name: Pradeep Kumar

Contact no. : 044 – 2850 1001

Email ID: pradeep.kumar@careratings.com

About CARE Ratings:

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