

## SPS Spinning Mills

October 13, 2020

### Ratings

Facilities	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Long Term Bank Facilities	6.63 (Enhanced from 5.63)	CARE BB; Stable (Double B; Outlook: Stable)	Revised from CARE BB-; Stable; ISSUER NOT COOPERATING* (Double B Minus; Outlook: Stable) and removed from INC
Total Facilities	6.63 (Rs. Six Crore and Sixty-Three Lakhs Only)		

*Details of instruments/facilities in Annexure-1*

### Detailed Rationale & Key Rating Drivers

The revision in the rating assigned to the bank facilities of SPS Spinning Mills (SPSSM) takes into account growth in total operating income (TOI) in FY20 (Prov.), improved solvency position, debt protection metrics and satisfactory operating cycle. The rating also factors, fluctuation in profitability margins. The rating continues to be tempered by small scale of operations, presence in highly fragmented cotton spinning sector and partnership nature of constitution.

However, the rating continues to derive benefits from long experience of promoters with established track record of entity.

### Rating sensitivities

#### Positive Factors

- Sustainable and significant increase in income while maintaining PBILDT margins more than 12%
- Significant improvement in the capital structure with overall gearing ratio improving to less than 1x by infusion of capital.

#### Negative Factors

- Decline in income or profitability from the present level.
- Any major deterioration in the capital structure arising from debt funded capex, increased working capital borrowings leading to an above 2x of overall gearing ratio.

### Detailed description of the key rating drivers

#### Key Rating Weaknesses

##### **Small scale of operations with fluctuating profitability margins**

The operations of the company remained small yet scaled up during FY20 (Prov.) marked by TOI of Rs. 28.47 Crore viz a viz from Rs. 23.00 Crore in FY18. The PBILDT margin has shown growth by 354bps in FY19, despite stable operating income reported during the year in comparison with previous fiscal. The same stood at 9.09% in FY19 improved from 6.71% in FY18 factored by impact on cost of goods sold. However, in FY20 (Prov.), the PBILDT margin has moderated by 360bps, despite rise in TOI. The same has stood at 5.81% mainly on account of a prevailing demand slowdown during the year leading to limited ability to pass on costs to the end customers. Further, the PAT margin stood thin and volatile during the review period, reported 0.85% in FY19, as against 0.70% in FY18, and remained almost stable at 0.82% in FY20 (Prov.) attributed by decrease in the absolute terms of PBILDT margin.

##### **Presence in 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.

##### **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.

<sup>1</sup>Complete definitions of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and in other CARE publications.

**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 firm. 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 15 years of experience in the same line of business.

***Growth in total operating income (TOI) in FY20 (prov.)***

Total operating income (TOI) of the firm remained almost stable in FY19 at Rs. 23.00 Crore as against 23.47 Crore in FY18. Further, in FY20 (prov.), the same has surged up by 5% to Rs. 28.47 Crore driven by increase in volume of sales.

***Improved Solvency position and debt protection metrics***

The capital structure of the firm, marked by overall gearing has witnessed consistent improvement, during the review period (FY18-FY20) on the back of decreasing debt books coupled with improving networth base on the back of accretion of profits and infusion of capital. The overall gearing has improved from 2.33x as in March 31, 2018 to 2.00x as on March 31, 2019. In FY20 (Prov.) it has improved further to 1.27x as on March 31, 2020 (Prov.) owing to scheduled repayment of term debts and less working capital utilization as on balance sheet date.

With respect to debt protection metrics, TD/GCA has improved and stood satisfactory during the review period. It has improved from 7.18x in FY18 to 5.63 in FY19 owing to decreasing debt levels coupled with increasing GCA. It has further improved to 5.22x in FY20 (Prov.) due to above continuing fact, although less GCA levels generated during the year in comparison with previous fiscal. On the other hand, interest coverage ratio have also improved marginally to 2.83x in FY20 (Prov.) as against 2.63x in FY19 at the back of reduction in interest costs though moderation in the operating profit.

***Satisfactory operating cycle***

SPSSM's operating cycle has improved and stood comfortable at ~37 days as on March 31, 2020 Prov. (PY: ~68 days) on account of improved inventory holding days and debtor days. 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 35 days in FY20 (Prov.). The payments from domestic clients are usually received in 50 days maximum and with respect to creditor's the firm paying within ~30 days. All this has led to a comfortable operating cycle of ~37 days in FY20 (Prov.) (PY: ~68 days). This has been enabled the firm to rely moderately on its working capital bank borrowings, witnessed by average utilization of 70% for the past twelve months ended September 2020.

***Liquidity analysis: Adequate***

The average utilization of the working capital limits remained 70% in the 12 months period ended September 2020, providing a liquidity cushion of Rs.1.50 cr. The firm has a repayment obligation of around Rs.0.69 cr. in FY21 expected to be funded through internal accruals generated by the firm which are projected to remain sufficient. The company has also been generating positive cash flows from operations in the past (with Rs.2.17 cr. in FY20). The current ratio and the quick ratio of the firm stood at 1.04x and 0.72x, respectively as on March 31, 2020. (PY: 1.06x and 0.54x respectively). The firm had free cash and bank balance of Rs.0.01 cr. as on March 31, 2020. Further, the lender indicated that the firm has not availed any moratorium announced by RBI on COVID-19 outbreak.

**Analytical approach:** Standalone

**Applicable criteria**

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

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

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

[CARE's methodology for manufacturing companies](#)

[Rating Methodology for Cotton Textile Manufacturing](#)

[Liquidity analysis of non-financial sector entities](#)

**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 September, 2020. Currently the firm has 28000 spindles and utilizing around 75% (due to COVID-19 disruptions) of total installed capacity. The firm has its registered office and two manufacturing facilities located at Coimbatore, Tamil Nadu. The

firm's revenue is realized from sale of three types of end products namely cone yarn (75%), hank yarn (17%) and process waste (8%). Cone yarn is used by power loom weavers, hank yarn is used by handloom weavers and wastes which are sold are further re-processed to cotton. The end products are supplied to weavers who are located in and around Tamil Nadu, Maharashtra, Kerala, Andhra Pradesh and Odissa. The firm purchases 20% of wind energy for captive consumption from Senthilvel Wind Farms and rest from Tamilnadu Electricity Board. SPSSM procures its main raw material, Cotton, from the suppliers located in Tamil Nadu, Andhra Pradesh & Maharashtra.

Brief Financials (Rs.crore)	FY19 (A)	FY20(P)
Total operating income	23.00	28.47
PBILDT	2.09	1.66
PAT	0.20	0.23
Overall gearing (times)	2.00	1.27
Interest coverage (times)	2.63	2.83

A: Audited P: Prov

Status of non-cooperation with previous CRA: NA

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	0.57	CARE BB; Stable
Fund-based - LT-Term Loan	-	-	March 2023	1.29	CARE BB; Stable
Fund-based - LT-Cash Credit	-	-	-	4.77	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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Term Loan	LT	0.57	CARE BB; Stable	-	1)CARE BB-; Stable; ISSUER NOT COOPERATING* (24-Feb-20)	1)CARE BB; Stable (14-Feb-19)	1)CARE BB; Stable (12-Feb-18)
2.	Fund-based - LT-Term Loan	LT	1.29	CARE BB; Stable	-	1)CARE BB-; Stable; ISSUER NOT COOPERATING* (24-Feb-20)	1)CARE BB; Stable (14-Feb-19)	1)CARE BB; Stable (12-Feb-18)
3.	Fund-based - LT-Cash Credit	LT	4.77	CARE BB; Stable	-	1)CARE BB-; Stable; ISSUER NOT COOPERATING* (24-Feb-20)	1)CARE BB; Stable (14-Feb-19)	1)CARE BB; Stable (12-Feb-18)

#### Annexure-3: Detailed explanation of covenants of the rated instrument / facilities-NA

#### Annexure 4: Complexity level of various instruments rated for this Firm

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Cash Credit	Simple
2.	Fund-based - LT-Term Loan	Simple

**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](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

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