

Santaram Spinners Limited

July 20, 2018

Ratings

Facilities	Amount (Rs. Crore)	Rating ¹	Rating Action
Long Term Bank Facilities	15.00 (Reduced from 15.30)	CARE BB-; Stable (Double B Minus; Outlook: Stable)	Revised from CARE B+; Stable (Single B Plus; Outlook: Stable)
Long Term/Short Term Bank Facilities	14.50	CARE BB-; Stable/ CARE A4 (Double B Minus; Outlook: Stable/ A Four)	Revised from CARE B+; Stable/ CARE A4 (Single B Plus; Outlook: Stable/ A Four)
Total	29.50 (Rupees Twenty Nine Crore and Fifty Lakh only)		

Details of instruments/facilities in Annexure-1

Note: CARE has withdrawn the rating assigned to the proposed term loan of Rs.0.30 crore since the company has not availed the same.

Detailed Rationale & Key Rating Drivers

The revision in the long term rating assigned to the bank facilities of Santaram Spinners Limited (SSL) takes into account continuous improvement capital structure ratios with lower reliance on external borrowings due to rationalization of working capital cycle. Moreover, revision in rating also takes into account growth in total operating income during FY18 (Provisional; refer period April 01, 2017 to March 31, 2018).

The ratings of SSL, however, remain constrained on account of its thin profitability due to limited value addition in the cotton ginning business, working capital intensive operations, susceptibility of its operating margin to volatile cotton prices and its presence in highly fragmented cotton ginning industry coupled with impact of changes in government policy on cotton.

The ratings continue to derive strengths from the vast experience of the promoters in the cotton ginning business, its strategic location within the cotton producing region of Gujarat and SSL's association with reputed clientele.

SSL's ability to increase its scale of operations while efficiently managing its working capital requirements along with the improvement in the profitability would be the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Weaknesses

Thin profitability margin: The profitability margin continued to remain thin primarily on account of the company's presence in the lowest segment of the cotton textile value-chain with limited value addition. During FY18, the PBILDT margin declined marginally by 41 bps over FY17 and remained thin. The profitability margins impacted during the year largely due to change in revenue mix with higher proportion of trading revenue in total operating income.

Susceptibility of operating margins to volatile cotton prices: Raw cotton is the key raw material for ginning and pressing activities. Prices of raw cotton are highly volatile in nature. Cotton ginners usually procure raw materials in large volumes to bargain bulk discount from suppliers hence, the volatility in cotton price along with the high inventory requirements results in high susceptibility of operating margins to cotton price fluctuations.

Working capital intensive operations: Due to seasonal nature of business, SSL is required to keep minimum amount of inventory to serve the demand in non season period. Apart from this, having low bargaining power with its reputed customers, SSL needs to extend high credit which further enhances the working capital requirement. Although, the working capital cycle improved during FY18 due to realization of inventory coupled with increased in scale of operation, the liquidity indicators continue to remain moderate. Moreover, SSL had debtor outstanding for more than 6 months of Rs.2.66 crore as on March 31, 2018 which further impacts the liquidity of the company.

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

Presence in highly fragmented cotton ginning industry and government regulations: Cotton ginning business involves very limited value addition and is highly dominated by small and medium scale units resulting in highly fragmented nature of the industry. Moreover, the competition in the ginning industry remains stiff restricting the profitability margins. Furthermore, Government policies with regard to minimum support price (MSP) and export-import policy affect cotton prices.

Key Rating Strengths

Growth in total operating income along with continuous improvement capital structure ratios: Total operating income of SSL grew by 34% during FY18 on y-o-y basis primarily on account of increase in trading sales of cotton bales and yarn along with effect of demonetization waning out. Despite growth in total operating income, the scale of operation of SSL continues to remain modest and volatile backed by volatile cotton prices.

The capital structure of the company marked by an overall gearing ratio improved continuously over past three years from 2.24 times as on March 31, 2016 to 1.61 times as on March 31, 2018 largely due to lower utilization of working capital limits. Although, despite improvement in capital structure ratio, it continue to remained moderate due to low capital base.

Vast experience of promoters in the cotton ginning business: Mr. Kalyan J Shah, the Chairman & Managing Director has more than two decades of experience in the ginning industry, actively manages the routine operations of the company. The other directors of the SSL also have vast experience in the cotton ginning business and co-manage the business activities. The promoters are supported by a team of technically qualified and experienced professionals.

Strategically located manufacturing unit along with long standing relationship with reputed customers: The ginning facilities of SSL are located at Kadi in Mehsana District of Gujarat. Gujarat is one of the largest producers of cotton in India. SSL's presence in the cotton producing region results in benefit derived from a lower logistic expenditure, easy availability and procurement of raw materials at effective prices. Further, SSL has a long standing relationship with some of the reputed clients which includes leading textile companies like Arvind Limited and Vardhaman Textile Limited.

Analytical Approach: Standalone

Applicable Criteria

[Criteria on assigning Outlook to Credit Ratings](#)
[CARE's Policy on Default Recognition](#)
[Criteria for Short Term Instruments](#)
[CARE's methodology for manufacturing companies](#)
[Financial ratios – Non-Financial Sector](#)

About the Company

SSL was incorporated in September 1983, as a private limited company and subsequently got converted into public limited company in December 1994. SSL is engaged in cotton ginning and pressing with an installed capacity of 300 metric tonne per day (MTPD) along with the trading raw cotton, ginned cotton bales, cotton yarn and cotton seeds. SSL has also set up an oil mill with eleven oil expellers having an installed capacity of 10 MTPD for manufacturing raw oil and de-oiled cakes. The manufacturing facilities of the company are located at Kadi, Gujarat. SSL has also installed a wind turbine generator of 0.80 Mega Watt at Jamnagar.

Brief Financials of SSL (Rs. Crore)	FY17 (Aud.)	FY18 (Prov.)
Total operating income	105.19	141.14
PBILDT	2.25	2.45
PAT	0.19	0.22
Overall gearing ratio (times)	1.81	1.61
PBILDT Interest coverage (times)	1.45	1.45

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History (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.

Analyst Contact

Name: Mr. Krunal Modi

Tel: 079-40265614

Mobile: +91-8511190084

Email: krunal.modi@careratings.com

****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**

About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

Disclaimer

CARE's ratings are opinions on credit quality and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE has based its ratings/outlooks on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments. 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 firm 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/ ST-Bills discounting/ Bills purchasing	-	-	-	14.50	CARE BB-; Stable / CARE A4
Fund-based - LT-Cash Credit	-	-	-	15.00	CARE BB-; Stable
Fund-based - LT-Term Loan (Proposed)	-	Not Applicable	Not Applicable	0.30	Withdrawn

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/ ST-Bills discounting/ Bills purchasing	LT/ST	14.50	CARE BB-; Stable/ CARE A4	-	1)CARE B+; Stable / CARE A4 (25-Sep-17)	1)CARE B+; Stable / CARE A4 (18-Jan-17)	1)CARE B+ / CARE A4 (23-Feb-16)
2.	Fund-based - LT-Cash Credit	LT	15.00	CARE BB-; Stable	-	1)CARE B+; Stable (25-Sep-17)	1)CARE B+; Stable (18-Jan-17)	1)CARE B+ (23-Feb-16)
3.	Fund-based - LT-Term Loan (Proposed)	LT	-	-	-	1)CARE B+; Stable (25-Sep-17)	1)CARE B+; Stable (18-Jan-17)	1)CARE B+ (23-Feb-16)

CONTACT**Head Office Mumbai****Ms. Meenal Sikchi**

Cell: + 9198190 09839

E-mail: meenal.sikchi@careratings.com**Mr. Ankur Sachdeva**

Cell: + 9198196 98985

E-mail: ankur.sachdeva@careratings.com**Ms. Rashmi Narvankar**

Cell: + 9199675 70636

E-mail: rashmi.narvankar@careratings.com**Mr. Saikat Roy**

Cell: + 9198209 98779

E-mail: saikat.roy@careratings.com**CARE Ratings Limited****(Formerly known as Credit Analysis & Research Ltd.)**

Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022

Tel: +91-22-6754 3456 | Fax: +91-22-6754 3457 | E-mail: care@careratings.com**AHMEDABAD****Mr. Deepak Prajapati**32, Titanium, Prahaladnagar Corporate Road,
Satellite, Ahmedabad - 380 015

Cell: +91-9099028864

Tel: +91-79-4026 5656

E-mail: deepak.prajapati@careratings.com**JAIPUR****Mr. Nikhil Soni**304, Pashupati Akshat Heights, Plot No. D-91,
Madho Singh Road, Near Collectorate Circle,
Bani Park, Jaipur - 302 016.

Cell: +91 - 95490 33222

Tel: +91-141-402 0213 / 14

E-mail: nikhil.soni@careratings.com**BENGALURU****Mr. V Pradeep Kumar**Unit No. 1101-1102, 11th Floor, Prestige Meridian II,
No. 30, M.G. Road, Bangalore - 560 001

Cell: +91 98407 54521

Tel: +91-80-4115 0445, 4165 4529

Email: pradeep.kumar@careratings.com**KOLKATA****Ms. Priti Agarwal**3rd Floor, Prasad Chambers, (Shagun Mall Bldg.)
10A, Shakespeare Sarani, Kolkata - 700 071

Cell: +91-98319 67110

Tel: +91-33- 4018 1600

E-mail: priti.agarwal@careratings.com**CHANDIGARH****Mr. Anand Jha**SCF No. 54-55,
First Floor, Phase 11,
Sector 65, Mohali - 160062
Chandigarh

Cell: +91 85111-53511/99251-42264

Tel: +91-0172-490-4000/01

Email: anand.jha@careratings.com**NEW DELHI****Ms. Swati Agrawal**13th Floor, E-1 Block, Videocon Tower,
Jhandewalan Extension, New Delhi - 110 055

Cell: +91-98117 45677

Tel: +91-11-4533 3200

E-mail: swati.agrawal@careratings.com**CHENNAI****Mr. V Pradeep Kumar**Unit No. O-509/C, Spencer Plaza, 5th Floor,
No. 769, Anna Salai, Chennai - 600 002

Cell: +91 98407 54521

Tel: +91-44-2849 7812 / 0811

Email: pradeep.kumar@careratings.com**PUNE****Mr. Pratim Banerjee**9th Floor, Pride Kumar Senate,
Plot No. 970, Bhamburda, Senapati Bapat Road,
Shivaji Nagar, Pune - 411 015.

Cell: +91-98361 07331

Tel: +91-20- 4000 9000

E-mail: pratim.banerjee@careratings.com**COIMBATORE****Mr. V Pradeep Kumar**

T-3, 3rd Floor, Manchester Square

Puliakulam Road, Coimbatore - 641 037

Tel: +91-422-4332399 / 4502399

Email: pradeep.kumar@careratings.com

CIN - L67190MH1993PLC071691

HYDERABAD**Mr. Ramesh Bob**401, Ashoka Scintilla, 3-6-502, Himayat Nagar,
Hyderabad - 500 029.

Cell : + 91 90520 00521

Tel: +91-40-4010 2030

E-mail: ramesh.bob@careratings.com