

Super spinning Mills Limited

November 14, 2017

Ratings

Facilities	Amount (Rs. crore)	Ratings ¹	Rating Action
Long-term Bank Facilities	28.32 (reduced from 41.16)	CARE BB; Stable (Double B; Outlook: Stable)	Revised from CARE BB+ (Double B Plus)
Short-term Bank Facilities	48.40	CARE A4 (A Four)	Revised from CARE A4+ (A Four plus)
Long/Short-term Bank Facilities	63.21 (reduced from 66.88)	CARE BB; Stable / CARE A4 (Double B; Outlook: Stable/ A Four)	Revised from CARE BB+/ CARE A4+ (Double B Plus/ A Four plus)
Total Facilities	139.93 (Rupees One Hundred Thirty Nine crore and Ninety Three lakhs only)		

Detailed Rationale & Key Rating Drivers

The revision in ratings assigned to the bank facilities of Super Spinning Mills Limited (SSML) factor in the decline in operational and financial performance of the company marked by fall in revenues and profitability margins during the past two years ended March 2017 and during Q1FY18 (refers to the period April 1 to June 30). The ratings continue to be constrained by the vulnerability of profit margins to volatility in cotton/yarn prices, highly leveraged capital structure of SSML and working capital intensive nature of operations.

The ratings, however, draw strength from the company's long track record of operations spanning over five decades, long-standing experience of the promoters in the textile industry, and presence of SSML in finer counts & specialized yarn segment. The ratings take into account the company's efforts in monetising some of its assets in FY17 and its plans for the same going forward. The ratings also take note of the merger of SSML with its subsidiaries effective from April 1, 2016.

Going forward, ability of the company to increase its revenues, improve profitability, monetise its assets in timely manner and reduce debt levels would be a key rating sensitivity.

Detailed description of the key rating drivers

Key Rating Weakness

Declining Scale of Operations and profitability:

The Company's Operating Income has declined during the past two years ended March 2017. During FY17, the company's total income declined by 15% year-on-year from Rs.349 cr in FY16 to Rs. 295 Crore. This was mainly due to the sale of one of the company's production plants in Karur during FY16 and lower overall production from the company.

The PBILDT margin declined from 2.06% in FY16 to 0.96% in FY17 majorly on account of increase in raw material cost and competitive pricing of finished goods in the market. SSML reported a higher net loss during FY17 at Rs.10.71 cr as against a net loss of Rs. 5.84 crore reported in FY16. During Q1FY18, SSML reported a total income of Rs. 71 cr and a PBIDT of Rs. - 0.3 cr.

Vulnerability of margins to volatility in raw material prices

The profitability of spinning mills depends largely on the prices of cotton and cotton yarn which are governed by various factors such as area under cultivation, monsoon, international demand-supply situation, etc.

Leveraged capital structure and weak financial risk profile

SSML had incurred significant debt-funded capex in the past. This coupled with reliance on working capital had resulted in high level of borrowings in the past. However, SSML has been consistently reducing its bank debt over the years. Despite the reduction in total debt, the overall gearing of the company continued to be high at 2.34x as on March 31, 2017 as

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

compared to 2.14x as of March 31, 2016 mainly on account of reduction in networth of the company due to net losses incurred during the past few years.

Working Capital Intensive nature of operations

The company's operations are working capital intensive in nature. The current ratio of the company has been below unity for the past few years due to higher reliance on working capital borrowings. However, with cash inflows from asset sales funding part of its working capital requirements, the average working capital utilization stood moderate at 70% for twelve months ended September 2017.

Key Rating Strengths

Established track record of the company

SSML belongs to SARA ELGI group, a well-known industrial group in Coimbatore. SSML, started with an initial capacity of 12,000 spindles, has gradually increased the spindle capacity and has an installed capacity of 1.4 Lakh spindles as on March 31, 2017, spread across three manufacturing units. The board of directors comprises of experienced industrialists, with three to four decades of experience in textile/ other industries. The company has a widespread network of agents in the domestic and international markets with about 90% of sales routed through them.

Established presence in finer counts and specialized yarns

SSML has an established presence in the production of fine yarn (count range more than 60s) and compact yarn which is used in the production of premium shirting material and dhotis. More than 60% of the company's produce is compact yarn. SSML has flexibility to manufacture a wide count range of yarn from 24s to 120s.

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 Short Term Instruments](#)

[Criteria for Manufacturing Companies](#)

About the Company

SSML was incorporated in 1962 by Coimbatore-based ELGI group, which has interests in textiles, building materials, compressors, textile machinery, etc. The company is primarily engaged in cotton yarn spinning, with three manufacturing units in the States of Andhra Pradesh (Hindupur). SSML has an aggregate installed capacity of 159,392 spindles as on March 31, 2016. SSML manufactures cotton yarn primarily in the higher count range of 60s to 120s.

During FY17, in order to consolidate the operations and reduce operational costs, two of SSML's wholly owned subsidiaries - Sara ElgiArteriors Limited (SEAL) - engaged in the business of Unplasticized Poly Vinyl Chloride (UPVC) doors & windows and Elgi Building Products Limited (EBPL) - engaged in manufacture of PVC extrusions (which find use in the manufacture of UPVC doors and windows) have been merged with SSML effective from April 1, 2016.

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)
Total operating income	349.32	294.77
PBILD	7.21	2.8
PAT	-5.84	-10.71
Overall gearing (times)	2.14	2.34
Interest coverage (times)	0.32	0.16

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

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 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

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	-	-	December 2021	28.32	CARE BB; Stable
Fund-based - ST-Bills discounting/ Bills purchasing	-	-	-	20.40	CARE A4
Fund-based - ST-Foreign Bill Discounting	-	-	-	2.00	CARE A4
Fund-based - ST-Foreign Bill Discounting	-	-	-	1.00	CARE A4
Non-fund-based - ST-BG/LC	-	-	-	25.00	CARE A4
Fund-based - LT/ ST-CC/PC/Bill Discounting	-	-	-	63.21	CARE BB; Stable / CARE A4

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	28.32	CARE BB; Stable	-	1)CARE BB+ (12-Aug-16)	1)CARE BB+ (07-Sep-15)	1)CARE BB+ (03-Nov-14)
2.	Fund-based - ST-Bills discounting/ Bills purchasing	ST	20.40	CARE A4	-	1)CARE A4+ (12-Aug-16)	1)CARE A4+ (07-Sep-15)	1)CARE A4+ (03-Nov-14)
3.	Fund-based - ST-Foreign Bill Discounting	ST	2.00	CARE A4	-	1)CARE A4+ (12-Aug-16)	1)CARE A4+ (07-Sep-15)	1)CARE A4+ (03-Nov-14)
4.	Fund-based - ST-Foreign Bill Discounting	ST	1.00	CARE A4	-	1)CARE A4+ (12-Aug-16)	1)CARE A4+ (07-Sep-15)	1)CARE A4+ (03-Nov-14)
5.	Non-fund-based - ST-BG/LC	ST	25.00	CARE A4	-	1)CARE A4+ (12-Aug-16)	1)CARE A4+ (07-Sep-15)	1)CARE A4+ (03-Nov-14)
6.	Fund-based - LT/ ST-CC/PC/Bill Discounting	LT/ST	63.21	CARE BB; Stable / CARE A4	-	1)CARE BB+ / CARE A4+ (12-Aug-16)	1)CARE BB+ / CARE A4+ (07-Sep-15)	1)CARE BB+ / CARE A4+ (03-Nov-14)

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