

Super Spinning Mills Limited

September 08, 2020

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long Term Bank Facilities	1.93 (Reduced from 6.47)	CARE BB-; Stable (Double B Minus; Outlook: Stable)	Reaffirmed
Long Term / Short Term Bank Facilities	27.80 (Reduced from 38.71)	CARE BB-; Stable / CARE A4 (Double B Minus ; Outlook: Stable / A Four)	Reaffirmed
Short Term Bank Facilities	22.45 (Reduced from 31.00)	CARE A4 (A Four)	Reaffirmed
Total Facilities	52.18 (Rs. Fifty-Two Crore and Eighteen Lakhs Only)		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Super Spinning Mills Limited (SSML) continue to be constrained by the decline in operational and financial performance with net losses reported in the past years ended FY20 (refers to the period April 1 to March 31), vulnerability of profit margins to volatility in cotton/yarn prices and poor liquidity. The ratings however draw strength from the company's long track record of operations, comfortable capital structure, long-standing experience of the promoters in the textile industry, and SSML'S presence in finer counts & specialized yarn segment. The rating also takes into account the debt reduction plans of the company through monetization of its assets in the near future.

Rating sensitivities

Positive Factors

- Ability to scale up operations and report operating profits (PBILDT) with efficient productivity and manage raw material price volatility.
- Successful and timely monetization of the unit-I assets for around Rs.30 crore as envisaged before December 2020 to be utilized for reduction of debt levels.

Negative Factors

- Sharp decline in the total income to below Rs.60 crore and continued cash losses leading to liquidity constraints with inefficient working capital utilization.

Detailed description of the key rating drivers

Key Rating Weaknesses

Declining Scale of Operations with losses: The Company's Operating Income had declined by 29% y-o-y in FY20 from Rs.210.98 crore in FY19 to Rs.149.91 crore in FY20 due to lower production following subdued domestic orders. During FY20, the Company had reported operating loss (loss before interest, depreciation and tax) of Rs.4.73 crore as against loss before interest, depreciation and tax of Rs.2.63 crore during FY19 on account of higher raw material and higher fixed overhead expenses. Consequently, the company made net loss of Rs.11.31 crore in FY20 as against net loss of Rs.12.89 crore in FY19. SSML also reported cash loss of Rs.7.41 crore in FY20 as against cash loss of Rs.10.37 crore in FY19. During Q1FY21 (refers to the period April 1 to June 30), SSML reported net loss of Rs.3.95 crore on total income of Rs.3.97 crore.

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. The cotton being the major raw material of spinning mills, movement in cotton prices without parallel movement in yarn prices impact the profitability of the spinning mills. The cotton textile industry is inherently prone to the volatility in cotton and yarn prices.

Poor Liquidity: Poor Liquidity marked by cash losses, fully utilized bank limits and modest cash balance of Rs.0.05 crore as on March 31, 2020. The current ratio of the company has been below unity for the past few years due to higher reliance on working capital borrowings. The company had sanctioned working capital limits of Rs.30.80 crore and the average utilization stood at 95% over past 12 months ended August 2020. SSML had opted for moratorium for interest and principal repayment during the period March-August 2020 as a relief measure offered by the bank for Covid-19 Pandemic.

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

Key rating Strengths

Vast experience of the promoters in textile industry and established track record of the company: SSML belongs to SARA ELGI group, in Coimbatore. SSML commenced operations in 1962 and has an installed capacity of 1.09 Lakh spindles as on March 31, 2020, spread across two manufacturing units. The board of directors comprises of experienced industrialists, with three to four decades of experience in textile/ other industries.

Established presence in finer counts and specialized yarns: SSML has a widespread network of agents in the domestic and international markets. 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 50% of company's produce is compact yarn.

Comfortable capital structure and reduced debt levels through asset monetization: The overall gearing stood comfortable at 0.32x as on March 31, 2020 as against 0.43x as on March 31, 2019. SSML has constantly reduced its debt levels through monetization of its freehold land to the tune of around Rs.60 crore over the past two years. The term debt reduced to Rs.0.88 crore as on March 31, 2020 from Rs.30.67 crore as on March 31, 2017. The working capital borrowings also decreased from Rs.54.07 crore as on March 31, 2018 to Rs.30.85 crore as on March 31, 2020. Furthermore, during the current year, SSML had planned for sale of one of its units for a total consideration of around Rs.30 crore by the end of December 2020 which is also expected to further reduce its working capital borrowings and part of creditors.

Industry Outlook and impact of Covid-19:

After lean demand since FY15, with intermittent spells of good periods, the Indian cotton yarn industry was expecting a change of fortune in FY20. The Cotton Association of India (CAI) has projected a record cotton crop of 354.5 lakh bales for CS2019-2020, which is around 14% higher than the last season crop of 312 lakh bales. However the demand distortions caused from Covid-19 pandemic are expected to hurt the domestic textiles production as well. Given the unfavourable demand scenario, textile firms may not utilise their full capacities or may undertake production cuts thus bringing down the overall output of textiles in the medium term. Covid-19 is expected to lead to drop in the revenue along with moderation in profitability margins and debt coverage indicators apart from impacting the liquidity profiles of most of the companies engaged in the sector.

Analytical approach: Standalone

Applicable Criteria

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

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

[Criteria for Short-term Instruments](#)

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

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

[Rating Methodology - Cotton Textile Manufacturing](#)

[Liquidity Analysis of Non-Financial Sector Entities](#)

About the Company

Super Spinning Mills Limited (SSML) incorporated in 1962, is primarily engaged in cotton yarn spinning, with two manufacturing units in the State of Andhra Pradesh. SSML has an aggregate installed capacity of 1.09 Lakhs spindles as on March 31, 2020. SSML manufactures cotton yarn majorly in the higher count range of 60s to 120s.

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	210.98	149.91
PBILDT	-2.63	-4.73
PAT	-12.89	-11.31
Overall gearing (times)	0.43	0.32
Interest coverage (times)	-0.19	-0.48

A-Audited

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	-	-	June 2022	1.93	CARE BB-; Stable
Fund-based - ST-Bills discounting/ Bills purchasing	-	-	-	3.00	CARE A4
Non-fund-based - ST-BG/LC	-	-	-	19.45	CARE A4
Fund-based - LT/ ST-CC/PC/Bill Discounting	-	-	-	27.80	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 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	1.93	CARE BB-; Stable	-	1)CARE BB-; Stable (27-Aug-19)	1)CARE BB-; ; Stable (27-Dec-18)	1)CARE BB; Stable (14-Nov-17)
2.	Fund-based - ST-Bills discounting/ Bills purchasing	ST	3.00	CARE A4	-	1)CARE A4 (27-Aug-19)	1)CARE A4 (27-Dec-18)	1)CARE A4 (14-Nov-17)
3.	Fund-based - ST-Foreign Bill Discounting	ST	-	-	-	1)Withdrawn (27-Aug-19)	1)CARE A4 (27-Dec-18)	1)CARE A4 (14-Nov-17)
4.	Fund-based - ST-Foreign Bill Discounting	ST	-	-	-	1)Withdrawn (27-Aug-19)	1)CARE A4 (27-Dec-18)	1)CARE A4 (14-Nov-17)
5.	Non-fund-based - ST-BG/LC	ST	19.45	CARE A4	-	1)CARE A4 (27-Aug-19)	1)CARE A4 (27-Dec-18)	1)CARE A4 (14-Nov-17)
6.	Fund-based - LT/ ST-CC/PC/Bill Discounting	LT/ST	27.80	CARE BB-; Stable / CARE A4	-	1)CARE BB-; Stable / CARE A4 (27-Aug-19)	1)CARE BB-; ; Stable / CARE A4 (27-Dec-18)	1)CARE BB; Stable / CARE A4 (14-Nov-17)

Annexure 3: Complexity level of various instruments rated for this company

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Term Loan	Simple
2.	Fund-based - LT/ ST-CC/PC/Bill Discounting	Simple
3.	Fund-based - ST-Bills discounting/ Bills purchasing	Simple
4.	Non-fund-based - ST-BG/LC	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. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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