

Gajavelli Spinning Mills Private Limited

Instrument	Amount Rated In Rs Crore	Rating Action
Long term fund based	51.51	[ICRA]B+; upgraded from [ICRA]B

ICRA has upgraded the long term ratings assigned to Rs. 51.51 crore fund based limits of Gajavelli Spinning Mills Private Limited (GSPL).

The rating upgrade factors in the expected improvement in the operating margins for the company during FY2017 aided by the low cost raw material inventory (cotton lint) stocked by the company as on March 31, 2016 as the cotton prices increased significantly in H1, FY2017. The rating also factors in the presence of the spinning mill in major cotton rowing region of Andhra Pradesh (Guntur district) and the benefits received on term loan via the interest subsidy granted under Technology Upgradation Fund Scheme. The assigned rating also derives comfort from the vast experience of promoters in the spinning industry for past two decades.

However, the assigned rating continues to be constrained by the stretched capital structure with weak gearing levels of 3.93 times as on March 31, 2016 and low NCA-to- Debt levels of ~10% during FY2016. ICRA also factors in highly fragmented and competitive industry with limited ability to pass on any variation in input costs; the margins declined significantly in FY2016 owing to lower realizations. ICRA also notes the vulnerability of revenues and margins to fluctuations in cotton and yarn prices and exposure to regulatory risks which affect the procuring price of ginned cotton bales and selling price of cotton yarn.

Going forward the ability of the company to increase the scale of operations, improve margins and coverage indicators, given high repayment obligations in the near term, will key rating issues from credit perspective.

Company Profile

Gajavelli Spinning Mills Private Limited (GSPL), incorporated as private limited company in April 2006 by Mr. Gajavelli Venkateswara Rao and Mr. Gajavelli Poornachadra Rao, is primarily engaged in producing cotton yarn. The mill is located in Guntur district of Andhra Pradesh and has a capacity of 35184 spindles. Cotton Yarn, Cotton waste and lint are the major products of the company. GSPL produces carded and combed yarn 32's count. The company sold 6073 MT of cotton yarn during FY2016 as against 5127 MT of cotton yarn during FY2015.

Recent Results

As per the FY2016 audited financials, the firm registered PAT levels of Rs. 2.88 crore on an Operating Income of Rs. 106.65 crore as against PAT levels of Rs. 1.03 crore on an Operating income of Rs. 102.82 crore during FY2015.

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