

Prasuna Vamsikrishna Spinning Mills Private Limited

July 24, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund based-Term Loan	0.47	0.39	[ICRA]BBB (Stable); Reaffirmed
Fund based- cash credit	14.75	14.75	[ICRA]BBB (Stable); Reaffirmed
Non-fund-based	0.43	0.43	[ICRA]BBB (Stable); Reaffirmed
Unallocated	33.96	34.04	[ICRA]BBB (Stable); Reaffirmed
Short-term – fund based (sublimit)	(14.00)	(14.00)	[ICRA]A3+; Reaffirmed
Short-term – non-fund based	0.20	0.20	[ICRA]A3+; Reaffirmed
Total	49.81	49.81	

*Instrument details are provided in Annexure-1

Rating action

ICRA has reaffirmed the long-term rating at [ICRA]BBB (pronounced ICRA triple B) for the Rs. 0.39-crore (revised from Rs. 0.47 crore) term loans, Rs. 14.75-crore long-term fund-based limits, Rs. 0.43-crore long-term non-fund based facilities, and Rs. 34.04-crore (revised from Rs. 33.96 crore) unallocated limits of Prasuna Vamsikrishna Spinning Mills Private Limited (PVSMPL). The outlook on the long-term rating is Stable. ICRA has also reaffirmed the short-term rating at [ICRA]A3+ (pronounced A three plus) for the Rs. 14.00-crore¹ short-term fund-based limits (sublimit), and Rs. 0.20-crore short-term non-fund-based limits of PVSMPL².

Rationale

The ratings consider the promoters' significant experience in the textile industry, the company's presence in the value-added compact yarn segment with flexibility to produce medium to finer count yarn, and its proximity to raw material sources, leading to savings on transportation costs. The ratings factor in the company's comfortable capital structure and coverage indicators with a gearing of 0.47 times, interest coverage of 4.93 times and TOL/TNW of 0.73 times for FY2018. The ratings are constrained by the company's modest scale of operations in the intensely competitive and fragmented cotton-spinning industry, limiting its financial flexibility. The ratings consider declining margins over the past two years owing to a significant increase in raw material costs and subdued growth in realisations. ICRA notes that the company's margins are susceptible to fluctuation in cotton and yarn prices, and inventory holding risks as PVSMPL procures most of the cotton during the cotton season.

Outlook: Stable

ICRA expects that the company will continue to benefit from the experience of its promoters and the plant's proximity to the raw material sources. The outlook may be revised to Positive if the company witnesses a significant growth in revenues and profitability, strengthening its financial risk profile. The outlook may be revised to Negative if margins decline, or lower-than-expected cash accruals, or any major debt-funded capex weakens its liquidity position or the coverage metrics.

¹ 100 lakh = 1 crore = 10 million

² For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications

Key rating drivers

Credit strengths

Significant experience of the promoters in the textile industry – The company's promoters have experience of over two decades in the textile industry, resulting in established relationships with suppliers and customers. PVSMPPL manufactures value-added compact yarn of counts 40s-80s. Its presence in the medium and finer counts provides the company flexibility to change its product mix based on demand.

Proximity to raw material sources saves on logistics cost – Compared to the mills located in Tamil Nadu, the mills located in the cotton-producing belt of Guntur benefit from the ready availability of raw materials and lower transportation costs.

Comfortable capital structure and coverage indicators – The company's capital structure was comfortable with a gearing of 0.47 times as on March 31, 2018. PVSMPPL's coverage indicators were healthy with interest coverage of 4.93 times, TOL/TNW of 0.73 times, and DSCR of 4.19 times for FY2018. The company's liquidity position was also comfortable with average utilisation of working capital limits at 40% for FY2018. However, the utilisation is high during the peak procurement season (December to March) and the company avails ad-hoc limits to fund its working capital requirements during this period.

Credit challenges

Modest scale of operations – PVSMPPL is a modest scale player with an installed capacity of 24,000 spindles and revenues of Rs. 61.2 crore in FY2018, which limit its financial flexibility. Given the high capacity utilisation, revenue growth would be largely driven by realisations in the near term.

Declining margins over the past two years – PVSMPPL's operating margin declined from 13.2% in FY2016 to 8.6% in FY2018 owing to a significant increase in raw material (cotton) costs and subdued growth in realisations. While PVSMPPL's margins were supported by Rs. 2.1-crore power subsidy in FY2018, the company is not eligible for the same from April 2018. Lower operating margins impacted the company's cash accruals and RoCE in the last two years.

Intensely competitive and fragmented spinning industry restrict pricing flexibility – The spinning industry is highly fragmented with presence of a large number of spinning mills, leading to intense competition in the industry and restricting PVSMPPL's pricing flexibility.

Revenues and margins exposed to fluctuations in cotton and yarn prices – PVSMPPL's revenues and margins are exposed to fluctuations in cotton and yarn prices, given its limited ability to pass higher raw material costs to its customers. Moreover, PVSMPPL stocks high cotton inventory during the peak season (November to March), which exposes it to inventory holding risks.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria:

[Corporate Credit Rating Methodology](#)

[Rating Methodology for Indian Textiles Industry– Spinning](#)

About the company:

PVSMPL, incorporated in 2004, primarily produces cotton yarn in medium- and finer-counts range. The manufacturing facility of the company in Guntur (Andhra Pradesh) has a compact spinning system with an installed capacity of 24,000 spindles. The company is closely held by the promoters and derives a major portion of its revenues from the export market.

Key financial indicators

	FY 2017	FY 2018*
Operating Income (Rs. crore)	60.0	61.2
PAT (Rs. crore)	2.4	0.9
OPBDIT/ OI (%)	11.6%	8.6%
RoCE (%)	7.0%	4.3%
Total Debt/ TNW (times)	0.5	0.5
Total Debt/ OPBDIT (times)	2.9	3.8
Interest coverage (times)	6.6	4.9

Source: PVSMPL, and ICRA research; *provisional financials

Status of non-cooperation with previous CRA: CRISIL, in its rationale published on Prasuna Vamsikrishna Spinning Mills Private Limited, dated November 17, 2015, suspended its ratings on Prasuna Vamsikrishna Spinning Mills Private Limited in the absence of adequate information.

Any other information: None

Rating history for last three years:

S. No.	Instrument	Current Rating (FY2019)			Chronology of Rating History for the past 3 years @			
		Type	Amount Rated (Rs. Crore)	Amount Outstanding as on March 31, 2018 (Rs Crore)	Date & Rating July 2018	Date & Rating in FY18 July 2017	Date & Rating in FY17 May 2016	Date & Rating in FY16 May 2015
1	Fund based-Term Loan	Long-term	0.39	0.38	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)
2	Fund based-cash credit	Long-term	14.75	NA	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)
3	Non-fund-based	Long-term	0.43	NA	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)
4	Unallocated	Long-term	34.04	NA	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)
5	Fund-based (sublimit)	Short-term	(14.00)	NA	[ICRA]A3+	[ICRA]A3+	[ICRA]A3	[ICRA]A3
6	Non-fund-based	Short-term	0.20	NA	[ICRA]A3+	[ICRA]A3+	[ICRA]A3	[ICRA]A3

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Fund based-Term Loan	2016	NA	FY2025	0.39	[ICRA]BBB (Stable)
Na	Fund based- cash credit	NA	NA	NA	14.75	[ICRA]BBB (Stable)
NA	Non-fund-based	NA	NA	NA	0.43	[ICRA]BBB (Stable)
NA	Unallocated	NA	NA	NA	34.04	[ICRA]BBB (Stable)
NA	Fund-based (sublimit)	NA	NA	NA	(14.00)	[ICRA]A3+
NA	Non-fund-based	NA	NA	NA	0.20	[ICRA]A3+

Source: PVSMPPL

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