

June 04, 2019

Prasuna Vamsikrishna Spinning Mills Private Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund based-Term Loan	0.39	0.33	[ICRA]BBB (Stable); Reaffirmed
Fund based- cash credit	14.75	14.75	[ICRA]BBB (Stable); Reaffirmed
Non-fund-based	0.43	-	-
Unallocated	34.04	34.33	[ICRA]BBB (Stable); Reaffirmed
Short-term – fund based (sublimit)	(14.00)	(18.00)	[ICRA]A3+; Reaffirmed
Short-term – non-fund-based	0.20	0.40	[ICRA]A3+; Reaffirmed
Total	49.81	49.81	

*Instrument details are provided in Annexure-1

Rationale

The ratings consider the promoters' significant experience in the textile industry resulting in established relationships with its suppliers and customers. The ratings factor in the company's presence in the value-added compact yarn with its 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 its comfortable capital structure and coverage indicators with gearing of 0.5 times, interest coverage of 7.8 times and TOL/TNW of 0.7 times for 10M FY2019.

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 three years, owing to 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 the company procures most of the cotton during the cotton season.

Outlook: Stable

ICRA believes that the company will continue to benefit from its experienced promoters and the plant's proximity to the raw material sources. The outlook may be revised to Positive if the company witnesses a higher-than-expected 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 weaken its liquidity position or coverage metrics.

Key rating drivers

Credit strengths

Significant experience of the promoters in the textile industry – The company's promoters have significant experience of over two decades in the textile industry resulting in established relationships with suppliers and customers. Prasuna Vamsikrishna Spinning Mills Private Limited (PVSMPL) manufactures value-added compact yarn of counts 40s-80s. Its presence in the medium and finer counts provides 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 not only benefit from ready availability of raw material, but also enjoy lower transportation costs.

Comfortable capital structure and coverage indicators – The company’s capital structure is comfortable with a gearing of 0.5 times as on January 31, 2019. PVSMP’s coverage indicators remained healthy with interest coverage of 7.8 times, TOL/TNW of 0.7 times, and DSCR of 6.5 times for 10M FY2019. Its liquidity position is comfortable with average utilisation of working capital limits at 30% for FY2019. However, the utilisation is higher 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 –PVSMP is a modest-scale player with installed capacity of 24,000 spindles and revenues of Rs. 61.2 crore in FY2018 limiting its financial flexibility. Moreover, given the high capacity utilisation, revenue growth would be primarily driven by realisations in the near term.

Moderate profitability – PVSMP’s operating margin declined to 8.4% in FY2018 from 13.2% in FY2016 owing to a significant increase in raw material (cotton) costs and subdued growth in realisations. However, PVSMP’s FY2019 operating margins are estimated to be supported by low-cost cotton inventory held at the start of the year. Despite an improvement, the RoCE remained low at 5.8% in 10M FY2019.

Intensely competitive and fragmented spinning industry restricting pricing flexibility – The spinning industry is highly fragmented with presence of large number of spinning mills leading to stiff competition in the industry, which restricts PVSMP’s pricing flexibility.

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

Liquidity position

PVSMP’s liquidity position is comfortable with average working capital utilisation of 30% in FY2019. However, utilisation is higher during the peak procurement season (December to March). The company’s repayment obligations are low at ~Rs. 0.06 crore per annum over the next three years and it does not have any major capital expenditure plans in the near term.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Indian Textiles Industry– Spinning
Parent/Group Support	Not Applicable
Consolidation / Standalone	The standalone financial statements have been considered for the analysis

About the company

PVSMP, which was incorporated in 2004, is primarily involved in the production of cotton yarn in the medium and finer-counts range. Its manufacturing facility 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 predominant share of its revenues from the export market.

Key financial indicators

	FY2018	10M FY2019*
Operating Income (Rs. crore)	61.3	56.9
PAT (Rs. crore)	2.3	1.9
OPBDIT/ OI (%)	8.4%	9.0%
RoCE (%)	4.4%	5.8%
Total Debt/ TNW (times)	19.8	21.2
Total Debt/ OPBDIT (times)	3.8	3.5
Interest Coverage (times)	4.8	7.8

*Provisional

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

S. No.	Instrument	Current Rating (FY2020)				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	Date & Rating in FY19	Date & Rating in FY18	Date & Rating in FY17	
									June 2019
1	Fund based-Term Loan	Long-term	0.33	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	Unallocated	Long-term	34.33	NA	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB- (Stable)	
4	Fund-based (sublimit)	Short-term	(18.00)	NA	[ICRA]A3+	[ICRA]A3+	[ICRA]A3+	[ICRA]A3	
5	Non-fund-based	Short-term	0.40	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	0.33	[ICRA]BBB (Stable)
Na	Fund based- cash credit	NA	NA	NA	14.75	[ICRA]BBB (Stable)
NA	Unallocated	NA	NA	NA	34.33	[ICRA]BBB (Stable)
NA	Fund-based (sublimit)	NA	NA	NA	(18.00)	[ICRA]A3+
NA	Non-fund-based	NA	NA	NA	0.40	[ICRA]A3+

Source: PVSMP

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