

# Infomerics Valuation And Rating Pvt. Ltd.

Press Release

## YSR Spinning and Weaving Mills Pvt Ltd

December 03, 2018

### Rating

Instrument / Facility	Amount (Rs. Crore)	Ratings	Rating Action
Long Term Bank Facilities(Including proposed limit of Rs.5.75 crore)	20.20	IVR BB+ / Stable Outlook (IVR Double B Plus with Stable Outlook)	Assigned
Short Term Bank Facilities	1.80	IVR A4+ (IVR A Four Plus)	Assigned
<b>Total</b>	<b>22.00</b>		

### Details of Facilities are in Annexure 1

### Detailed Rationale

The aforesaid rating derives comfort from its experienced promoters, efficient operating cycle, proximity to cotton growing areas and entry barrier due to high capital intensive operation. However, the rating is constrained by small scale of operation, susceptibility to fluctuation in raw material prices, intense competition, moderate debt protection metrics. Growth and profitability, gearing level and working capital management are the key rating sensitivities.

### List of Key Rating Drivers

- Experienced promoter
- Efficient operating cycle
- Proximity to cotton growing areas
- Entry barrier due to high capital intensive operation
- Small scale of operation
- Susceptibility to fluctuation in raw material prices
- Intense competition
- Moderate debt protection metrics

### Detailed Description of Key Rating Drivers

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### **Key Rating Strengths**

#### **Experienced promoter**

The promoters, Mr. Yerram Sridhar Reddy, Mr. Yerram Srinivasulu Reddy, Mr. Pidaparthi Srinivasa Reddy, Mr. Dogiparthi Subba Rao and others have more than two decades of experience in the spinning industry. The extensive experience has helped the company in establishing continued relations with customers and suppliers.

#### **Efficient operating cycle**

The company has managed its operating cycle backed by low receivables cycle except for FY18 when operating cycle had inched up due to delay in collecting receivables.

#### **Proximity to cotton growing areas**

The unit is located near major cotton growing areas near Guntur in Andhra Pradesh, resulting in easy availability of quality raw materials and savings in transportation costs.

#### **Entry barrier due to high capital intensive operation**

Spinning mills are very capital intensive in nature. The capital turnover ratio is very low, which acts an entry barrier for new players unless they have backward or forward integration

### **Key Rating Weaknesses**

#### **Small scale of operation**

Despite its long track record of operation, YSR has a small scale of operation with total operating revenue in the range of Rs. 80 crore in the last two years.

#### **Susceptibility to fluctuation in raw material prices**

The margins are highly susceptible to changes in the prices of cotton. The price of cotton is fixed by the government through the Minimum Support Price (MSP). However, the purchase price depends on the expected arrival of crop in the market. Prices are also influenced by international prices and Govt. policies on restriction in import and export. Any adverse movement of cotton prices further impacts narrow margins in the industry.

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### Moderate debt protection metrics

The long term debt to equity ratio and overall gearing ratio of the company remained moderate as on March 31, 2018. The debt protection parameters of the company remained stretched. However, the company has a satisfactory debt servicing track record over the years.

### Intense competition

The cotton industry continues to be competitive and fragmented with intense competition from organised as well as unorganized players.

### Analytical Approach & Applicable Criteria:

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non-financial Sector)

Default Recognition and Post-Default Curing Period

### About the Company

YSR Spinning and Weaving Mills Pvt. Ltd., incorporated in 1994, was established by Mr. Yerram Sridhar Reddy. However, the commercial operation started in 1999. The company manufactures cotton yarn at Guntur (Andhra Pradesh) and has an installed capacity of 26000 spindles of ring frame. The geographies served by the company in the domestic front include Andhra Pradesh, Tamil Nadu, Maharashtra, West Bengal, Orissa and Bihar. The export markets include China, Thailand, Nepal, Egypt and Taiwan. The promoters and directors of the company have more than 20 years of experience in the industry. They are actively involved in the overall operations and day-to-day affairs of the company.

### Financials (Standalone):

	<b>(Rs. crore)</b>	
<b>For the year ended*</b>	<b>31-03-2017</b>	<b>31-03-2018</b>
	<b>Audited</b>	<b>Audited</b>
Total Operating Income	82.31	80.23
EBITDA	3.79	3.18
PAT	0.34	0.12
Total Debt (Excluding Subordinate)	17.60	16.61

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For the year ended*	31-03-2017	31-03-2018
Loan)		
Tangible Net worth	12.59	12.71
EBITDA Margin (%)	4.60	3.96
PAT Margin (%)	0.41	0.15
Overall Gearing Ratio (x)	1.4	1.31

\*Classification as per Infomerics' standards.

**Status of non-cooperation with previous CRA:** Acuite Ratings and Research Limited which has earlier rated the company, has classified it as "Issuer Not Cooperating" category due to non-submission of information as per Press Release dated September 5, 2018.

**Any other information:** Nil

### Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2018-19)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2017-18	Date(s) & Rating(s) assigned in 2016-17	Date(s) & Rating(s) assigned in 2015-16
1.	Long Term Fund Based Limits - Cash Credit	Long Term	10.00	IVR BB+ / Stable Outlook	-	-	-
2.	Long Term Fund Based Limits - Cash Credit (Proposed)	Long Term	5.75	IVR BB+ / Stable Outlook	-	-	-
3.	Long Term Fund Based Limits - Term Loan	Long Term	4.45	IVR BB+ / Stable Outlook	-	-	-
4.	Short Term Fund Based Limits- SLC	Short Term	1.50	IVR A4+	-	-	-
5.	Short Term Non Fund Based Limits- CEL	Short Term	0.30	IVR A4+	-	-	-

**Note on complexity levels of the rated instrument:** Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at [www.infomerics.com](http://www.infomerics.com).

## Infomerics Valuation And Rating Pvt. Ltd.

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### About Infomerics:

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. It is gradually gaining prominence in domestic rating and/or grading space. Infomerics is striving for positioning itself as the most trusted & credible rating agency in the country and is gradually widening its product portfolio. Company's long experience in varied spectrum of financial services is helping it to fine tune its product offerings to best suit the market.

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### Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Long Term Bank Facilities – Cash Credit	-	-	-	10.00	IVR BB+ / Stable Outlook
Long Term Bank Facilities – Cash Credit (Proposed)	-	-	-	5.75	IVR BB+ / Stable Outlook
Long Term Bank Facilities – Term loan	-	12.45%	March 2022	4.45	IVR BB+ / Stable Outlook
Short Term Bank Facilities – SLC	-	-	-	1.50	IVR A4+

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Short Term Bank Facilities – CEL	-	-	-	0.30	IVR A4+
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