



## Rating Rationale

### Sri SPM Weaving Mills

13 Jan 2021

**Brickwork Ratings downgrades the ratings for the Bank Loan Facilities of ₹35.77 Crores of Sri SPM Weaving Mills ('SPM' or 'the firm')**

#### Particulars

Facility	Amount (₹ Crs)		Tenure	Rating*	
	Previous	Present		Previous (Sep 2019)	Present
Fund based	19.96	35.77	Long Term	BWR B- (Stable)	BWR D (Downgrade)
<b>Total</b>	<b>19.96</b>	<b>35.77</b>	<b>INR Thirty Five Crores and Seventy Seven Lakhs only</b>		

\*Please refer to BWR website [www.brickworkratings.com/](http://www.brickworkratings.com/) for definition of the ratings  
Complete details of Bank facilities is provided in Annexure-I

**RATING ACTION :** Brickwork rating downgrades rating of BWR D. The downgrade of rating reflects the ongoing delay in debt servicing of interest.

#### **Rationale/Description of Key Rating Drivers/Rating sensitivities:**

BWR has principally relied upon the audited financial results up to FY19, provisional financial of FY20 and projected financial up to FY22 and publicly available information and clarifications as provided by the firm's management.

The rating draws strength from the vast business experience of the partner/s, established track of operations of the group firm. However, the rating is constrained by the moderate scale of business with limited track record of operations, high gearing, stressed liquidity level of the firm, constitution of the firm and high competition from other established players in the market, susceptibility of profit margins to volatile raw material prices and overall impact of the Covid-19 pandemic on the general business environment.

#### **DESCRIPTION OF KEY RATING DRIVERS**

##### **Credit Strengths:**

- The promoter of the firm has more than two decades of experience in the textile industry and the firm has strong group support with well experienced management. The established regional presence of the partners and their long standing industry experience has enabled SPM to establish a healthy relationship with suppliers and customers.



- The firm is located in the Erode cluster and thus has a competitive advantage in terms of skilled labor, logistics, production knowledge and vendors making the firm more efficient and cost effective.

#### **Credit Risks:**

- The firm's scale of operations was moderate with limited track record of operations representing Rs.51.23 crs in FY19 however the sales of the firm has increased to Rs.55.28 crs as per provisional FY20.
- On account of debt funded capital structure for expansion of spinning mill, gearing of the company recorded as 2.19 times in FY19 and 1.46 times in FY20(Prov). Further delay in capex will have an impact on the cost of the project. However, If we treat unsecured loans of Rs.5.40 crs as quasi equity, gearing will improve to 1.08 times in FY20(Prov).
- Entry barriers in the industry are low on account of limited capital and technology requirement and also low differentiation in the end product leading to intense competition and limiting the pricing power resulting in low profitability.
- The firm is not adhering to the term loan repayments as per the schedule and honoring commitment with some delay.
- The firm operates in a highly competitive and unorganized market. Also contributing to the credit risk is the slowdown faced by the textile industry coupled with Covid-19 led lock down has severely impacted the overall industry.

#### **ANALYTICAL APPROACH AND APPLICABLE RATING CRITERIA**

BWR has factored in the standalone business parameters and financial risk profile of the firm to arrive at the rating. Reference may be made to the Rating Criteria hyper linked detailed below (hyperlinks provided at the end of this rationale).

#### **LIQUIDITY POSITION**

The firm's liquidity profile is stretched driven by a current ratio of 1.65 times in FY19 as compared to 4.04 times in FY18. Cash and Cash Equivalents were Rs.0.01 cr. and Net cash accruals/Total Debt was 0.15 times in FY19 .

#### **PROFILE OF THE FIRM**

M/s Sri SPM Weaving Mills is a Partnership Firm established on 20.11.2015. The unit situated on a land admeasuring at 3.77 acres and located at Mangalam Village, Erode district.SPM has commenced the operations on 01.04.2017 and it is engaged in manufacturing of grey fabric. Erode Sri Palanimurugan Spinning Mills P.Ltd.(established in 2006 at Erode) is an associate of Sri SPM Weaving Mills.

**KEY FINANCIAL INDICATORS (in ₹ Cr)**

Key Parameters	Units	FY18	FY19	FY20
Result Type		Audited	Audited	Provisional
Operating Revenue	₹ Cr	27.30	51.23	55.28
EBITDA	₹ Cr	2.32	4.98	5.20
PAT	₹ Cr	-0.25	0.37	2.20
Tangible Net worth	₹ Cr	9.92	11.46	15.66
Total Debt/Tangible Net worth	Times	1.99	2.19	1.46
Current Ratio	Times	4.04	1.65	2.99

**KEY COVENANTS OF THE INSTRUMENT/FACILITY RATED: NIL**

**NON-COOPERATION WITH PREVIOUS RATING AGENCY IF ANY : CARE C Issuer  
Not cooperating\* dated Dec 15, 2020**

**RATING HISTORY FOR THE LAST THREE YEARS [INCLUDING WITHDRAWAL AND SUSPENDED]**

S.No	Facility	Current Rating (2021)			Rating History		
		Type	Amount (₹ Crs)	Rating	2020	Sep 2019	2018
1.	Fund Based	Long Term	35.77	BWR D Downgrade	NIL	BWR B-(Stable)	NIL
	<b>Total</b>		<b>35.77</b>	<b>₹ Thirty Five Crores and Seventy Seven Lakhs Only</b>			

**COMPLEXITY LEVELS OF THE INSTRUMENTS**

For more information, visit [www.brickworkratings.com/download/ComplexityLevels.pdf](http://www.brickworkratings.com/download/ComplexityLevels.pdf)

**Hyperlink/Reference to applicable Criteria**

- [General Criteria](#)
- [Approach to Financial Ratios](#)

□ [Short Term Debt](#)

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**Sri SPM Weaving Mills**  
**ANNEXURE I**

**Details of Bank Facilities rated by BWR**

SL.No.	Type of Facilities	Long Term (₹ Cr)	Short Term (₹ Cr)	Total (₹ Cr)
1	Cash Credit	10.00	-	10.00
2	Term Loans	17.97		17.97
3	One time FLC (under buyers credit)	7.80	-	7.80
<b>INR Thirty Five Crores and Seventy Seven Lakhs Only</b>				<b>35.77</b>

\*Term Loans o/s as on 28.12.2020



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