

September 23, 2022

S.N.N Tulasi Narayana Spinners Private Limited: [ICRA]B+(Stable)/ [ICRA]A4 assigned

Summary of rating action

| Instrument* | Current Rated Amount (Rs. crore) | Rating Action |
|---|-------------------------------------|--------------------------------------|
| Long term Fund based - Term loans | 25.0 | [ICRA]B+(Stable); assigned |
| Long term Fund based - Cash Credit | 5.6 | [ICRA]B+(Stable); assigned |
| Long term/Short term - Unallocated limits | 1.9 | [ICRA]B+(Stable)/ [ICRA]A4; assigned |
| Total | 32.5 | |

*Instrument details are provided in Annexure-1

Rationale

The rating assigned to S.N.N Tulasi Narayana Spinners Private Limited (STNSPL) takes cognizance of the experience of its promoters of nearly two decades in the textile industry, and its proximity to raw material sources as the plant is located in the Annur district in Tamil Nadu. The promoters of the company have also been running a partnership firm called Sri Amman Textiles, which will be sourcing yarn from STNSPL, post commissioning. The ratings are, however, constrained by the project execution risks and intense competition in the spinning mill industry along with the highly fragmented nature of the industry. Going forward, commissioning of the project in a timely manner and the entity's ability to achieve profitability post commissioning of the project would be the key rating sensitivities.

The Stable outlook on the [ICRA]B+ rating reflects ICRA's opinion that STNSPL would benefit from the experience of its promoters in the textile industry and the location-specific advantages.

Key rating drivers and their description

Credit strengths

Extensive experience of promoters in the spinning industry – The promoters of STNSPL have presence in the textile industry for nearly two decades. This has helped in building healthy relationship with its suppliers and customers, which is likely to ensure a steady supply of raw materials and repeat business.

Part of established Group with presence in the textile industry – The company is a part of an established group, which has its presence in the textiles and poultry sectors for over two decades. Further, the company is expected to supply a substantial portion of its production to entities within the Group. ICRA believes that the established presence of the Group in the textile industry will support the company's business profile over the medium term.

Proximity to raw materials and textile market in Tamil Nadu – STNSPL would operate from Annur, which is one of the major textile manufacturing hubs of India. The company would enjoy competitive advantage through lower raw material prices.

Credit challenges

Exposure to project related risks, including risks associated with stabilisation of the plants as per expected operating parameters, post commissioning of the project – The commercial operation of STNSPL is scheduled to commence from October 2022. Hence, the entity would remain exposed to project-related risks, including the risk of commissioning within the budgeted time and stabilising the plant and achieving desired process parameters and cost efficiencies. However, ICRA notes

that civil and structural works are almost finished. Further, major plant and machinery have been procured and the balance is expected to be received in the near term.

Relatively smaller scale of operations – STNSPL is a relatively smaller-sized player in the highly fragmented domestic spinning industry, with a capacity of 18,240 spindles. Small scale of operations is also expected to limit its pricing flexibility, exposing the earnings to fluctuations in raw material prices, especially owing to the seasonal availability of high-quality cotton.

Intense competition and fragmented industry structure – The spinning industry is characterised by stiff competition from a large number of players, which is expected to impact its profit margins.

Vulnerability of profitability to fluctuations in raw material prices and regulatory changes – The operating margins of cotton spinners are susceptible to changes in cotton prices, which are highly volatile and commoditised product. Any abrupt change in cotton prices due to supply-demand mismatch, and government regulations related to changes in the minimum support price (MSP) can lead to a distortion in market prices and affect the profitability of players across the cotton value chain, including spinners.

Liquidity position: Stretched

Rating Sensitivities

Positive factors – ICRA may upgrade STNSPL's ratings if the entity is able to commission the project as per schedule, and run the operations profitably.

Negative factors – Pressure on STNSPL's ratings could arise if there is a delay in the commissioning of the project and/or a delay in achieving the expected operating parameters, post commissioning of the project, adversely impacting the business risk profile of the entity.

Analytical approach

| Analytical Approach | Comments |
|---------------------------------|--|
| Applicable rating methodologies | Corporate Credit Rating Methodology Entities in the Spinning Industry |
| Parent/Group support | Not Applicable |
| Consolidation/Standalone | Standalone |

About the company

S.N.N Tulasi Narayana Spinners Private Limited (STNSPL) was incorporated on December 31, 2020 for manufacturing cotton yarn by setting up its own spinning mill. The company's office and the factory are located in Annur district of Coimbatore, Tamil Nadu. STNSPL is setting up a spinning unit, having capacity of 18,240 spindles and is expected to commence its operations in October 2022.

Key financial indicators (audited/provisional) -

| STNSPL (Standalone) | FY2021 | FY2022* |
|--|-----------------------|---------------------|
| Operating income (Rs. crore) | - | - |
| PAT (Rs. crore) | - | - |
| OPBDIT/OI | - | - |
| PAT/OI | - | - |
| Total outside liabilities/Tangible net worth (times) | 2,027.35 [#] | 353.63 [#] |
| Total debt/OPBDIT (times) | - | - |

Interest coverage (times)

-

-

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; *Provisional

Source: Company data and ICRA Research

The company is yet to commence its operations and hence these ratios appear to be very high.

Status of non-cooperation with previous CRA: Not applicable
Any other information: None
Rating history for past three years

| | Instrument | Current Rating (FY2023) | | | | Chronology of Rating History for the past 3 years | | |
|---|--------------------------|-------------------------|--------------------------|--|---------------------------------------|---|--------|--------|
| | | Type | Amount Rated (Rs. crore) | Amount Outstanding as on March 31, 2022* (Rs. crore) | Date and Rating in September 23, 2022 | Date & Rating | | |
| | | | | | | FY2022 | FY2021 | FY2020 |
| | | | | | | - | - | - |
| 1 | Fund based - Term loans | Long-term | 25.00 | 17.62 | [ICRA]B+(Stable) | - | - | - |
| 2 | Fund based - Cash Credit | Long-term | 5.60 | - | [ICRA]B+(Stable) | - | - | - |
| 3 | Unallocated limits | Long term/Short term | 1.90 | - | [ICRA]B+(Stable)/[ICRA]A4 | | | |

Source: Company data; *Provisional

Complexity level of the rated instruments

| Instrument | Complexity Indicator |
|---|----------------------|
| Long term Fund based - Term loans | Simple |
| Long term Fund based - Cash Credit | Simple |
| Long term/Short term - Unallocated limits | NA |

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: www.icra.in

Annexure I: Instrument details

| ISIN | Instrument Name | Date of Issuance | Coupon Rate | Maturity | Amount Rated (Rs. crore) | Current Rating and Outlook |
|------|---|------------------|-------------|----------------|--------------------------|----------------------------|
| NA | Long term Fund based - Term loans | August 2021 | 12% | September 2023 | 25.00 | [ICRA]B+(Stable) |
| NA | Long term Fund based - Cash Credit | NA | NA | NA | 5.60 | [ICRA]B+(Stable) |
| NA | Long term/Short term - Unallocated limits | NA | NA | NA | 1.90 | [ICRA]B+(Stable)/ [ICRA]A4 |

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure II: List of entities considered for consolidated analysis: Not Applicable

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About ICRA Limited:

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Branches



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