

January 02, 2025

## Sri Velayudhaswamy Spinning Mills Private Limited: Ratings downgraded to [ICRA]BBB- (Negative)/[ICRA]A3

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term- Fund based -Term loans	102.07	102.07	[ICRA]BBB- (Negative); downgraded from [ICRA]BBB (Negative)
Long-term – Fund based - Cash credit	84.00	84.00	[ICRA]BBB- (Negative); downgraded from [ICRA]BBB (Negative)
Long-term/Short-term Unallocated	138.93	138.93	[ICRA]BBB- (Negative)/[ICRA]A3; downgraded from [ICRA]BBB (Negative)/[ICRA]A3+
<b>Total</b>	<b>325.00</b>	<b>325.00</b>	

\*Instrument details are provided in Annexure-I

### Rationale

The revision in the ratings on the bank lines of Sri Velayudhaswamy Spinning Mills Private Limited (SVSMPL/company) considers the weaker-than-expected recovery witnessed in H1 FY2025, and the likely sustained pressure on debt coverage indicators over the medium term due to the recent debt-funded expansions undertaken by the entity. While SVSMPL reported an annualised revenue growth of 15.5% in H1 FY2025, over levels witnessed in FY2024, it continued to report net losses. Despite operating margins improving to 6.3% in H1 FY2025 (provisional) compared to 5.5% in FY2024, it remained lower compared to the levels witnessed in FY2021 and FY2022. Further, with the increase in the interest costs and debt repayment obligations, its coverage indicators have remained weak. However, debt coverage indicators are likely to improve over the medium term with an improvement in demand environment and increase in the scale of operation. Despite recovery of ~Rs. 5 crore from its Group entity, the liquidity of the entity remains strained owing to dues recoverable from its Group entity to an extent of ~Rs. 28 crore as on October 31, 2024. The ratings also remain constrained by the commoditised nature of the company's products, which, coupled with the fragmented industry structure, results in limited pricing power and keeps the profitability under check. Further, the ratings factor in the high working capital intensity of SVSMPL's operations due to cotton's seasonal availability, which requires stocking during the harvest season. This renders the company's profitability vulnerable to volatility in cotton prices.

The ratings, however, remain supported by the company's established presence in Tamil Nadu's hosiery yarn market and the extensive experience of its promoters in the spinning industry and its captive power generation capacities support ~90% of its power requirements.

The Negative outlook reflects ICRA's expectations that the company's debt coverage metrics will remain under pressure in the near to medium term, given the lower earnings, and considerably high debt repayment obligations owing to the recent debt-funded capex.

### Key rating drivers and their description

#### Credit strengths

**Established presence in cotton spinning industry** – SVSMPL had been a part of the erstwhile SSM Group, with sizeable capacities in the spinning and fabric segments. The promoters have been involved in Tamil Nadu's hosiery yarn market (which

includes the large hosiery hub in Tirupur) for many years and have extensive experience in the spinning industry. The company has an established presence across other key domestic and export markets, which supports its healthy scale of operations.

**Expected cost saving from recently enhanced captive power generation capacities** – The company commissioned a 10-MW solar power plant in Q1 FY2024. The overall financial performance, going forward, would benefit from the solar capacity added in the recent past apart from its existing 5.95-MW captive windmill capacity. SVSMPL met ~93% of its power requirement from captive sources in H1 FY2025 compared to ~83% in FY2024. Going forward, the long-term benefits from captive power generation capacities would reduce power purchases from the Tamil Nadu Electricity Board (TNEB), and lead to cost savings, given the high-power cost in Tamil Nadu.

### Credit challenges

**Weak coverage indicators due to the large debt-funded capital expansion undertaken in the recent past** – The company has incurred a debt-funded capex of ~Rs. 110 crore over FY2023 and FY2024, towards installation of a 10-MW solar power plant and addition of 4,800 rotors, which was funded through a term debt of Rs. 77.3 crore and the remaining through internal accruals. The addition of new rotors was aimed towards venturing into margin-lucrative colour open-ended (OE) yarn segment. The addition of solar plant would save power costs and help improve the margins and the scale over a medium-to-long term. However, in the near term, there would be some pressure on its capitalisation and debt protection metrics, given the sizeable debt repayment obligations.

**Working capital-intensive operations; susceptible to volatility in cotton and cotton yarn prices** – Like other entities in the spinning sector, SVSMPL stocks cotton during the harvest season from October to March. This practice exposes it to the fluctuations in cotton and cotton yarn prices during the non-harvest period as the procurement cost for SVSMPL becomes fixed. This also results in a high inventory position for the company, particularly during the peak season. Besides the high receivables position, this results in high working capital intensity for the company, as indicated by the net working capital/operating income of 33.9% in FY2024.

**Commoditised nature of yarn and the fragmented industry structure keep profitability under check** – The spinning and knitting industries are highly fragmented with a significant share of the unorganised segment. The company's product portfolio continues to be concentrated towards medium and coarser count yarns, which entail a relatively lower value addition. As a result, it enjoys limited pricing power, which is likely to keep its profitability under check.

### Liquidity position: Stretched

SVSMPL's liquidity position is expected to remain stretched, given the moderate buffer available in the working capital limits and high debt repayment obligations. It has an undrawn portion of working capital limit of Rs. 10.8 crore as on October 31, 2024, against the available sanctioned limit of Rs.70 crore. The company has no major capital expenditure plans, and it has debt repayment obligations of Rs. 23.7 crore in FY2025 and Rs. 21.6 crore in FY2026. While the entity is likely to generate minimal cash profits in FY2025, its liquidity remains dependent on recovery of dues extended to its Group entity and fund infusion from its promoters. Its promoters have indicated funding support to an extent of Rs. 7.5 crore in FY2025.

### Rating sensitivities

**Positive factors** – The outlook can be revised to Stable, if there is a healthy and sustained increase in the company's profitability, while improving its liquidity profile and debt protection metrics.

**Negative factors** – The ratings could be downgraded, if there is sustained pressure on the company's operating performance or any large debt-funded capex, which would adversely impact the liquidity and debt protection metrics. Specific credit metrics that could trigger ratings downgrade include an interest coverage of less than 2.5 times on a sustained basis.

## Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">Textiles - Spinning</a>
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the standalone financials of SVSMPL.

## About the company

SVSMPL operates with an installed capacity of 40,464 spindles and 8,072 rotors (1,200 rotors added in H1 FY2025). The company produces cotton yarn (ring spinning) and open-end yarn with the counts in the range of 20s to 40s and coloured OE yarn. SVSMPL sells its produce mainly to the domestic customers. It also has wind power capacity of 5.95 MW and solar power capacity of 10 MW for captive consumption.

## Key financial indicators (audited)

Standalone	FY2023	FY2024	H1 FY2025*
Operating income	310.7	332.0	191.7
PAT	(9.3)	(11.7)	(1.5)
OPBDIT/OI	0.6%	5.5%	6.3%
PAT/OI	(3.0%)	(3.5%)	(0.8%)
Total outside liabilities/Tangible net worth (times)	1.2	1.7	-
Total debt/OPBDIT (times)	76.8	9.0	6.4
Interest coverage (times)	0.2	1.2	1.6

Source: Company, ICRA Research; \* Provisional numbers; All ratios as per ICRA's calculations; Amounts in Rs. crore

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

## Status of non-cooperation with previous CRA: Not applicable

## Any other information: None

## Rating history for past three years

Instrument	Current rating (FY2025)						Chronology of rating history for the past 3 years					
	FY2025						FY2024		FY2023		FY2022	
	Type	Amount Rated (Rs. crore)	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating
Fund based - Term Loans	Long term	102.07	Jan 02, 2025	[ICRA]BBB- (Negative)	Jul 09, 2024	[ICRA]BBB (Negative)	Dec 14, 2023	[ICRA]BBB (Negative )	Dec 02, 2022	[ICRA]BBB+ (Stable)	Sep 24, 2021	[ICRA]A-@
Fund-based - Cash Credit	Long-term	84.00	Jan 02, 2025	[ICRA]BBB- (Negative)	Jul 09, 2024	[ICRA]BBB (Negative)	Dec 14, 2023	[ICRA]BBB (Negative )	Dec 02, 2022	[ICRA]BBB+ (Stable)	Sep 24, 2021	[ICRA]A-@
Unallocated	Long-term/ Short-term	138.93	Jan 02, 2025	[ICRA]BBB- (Negative)/ [ICRA]A3	Jul 09, 2024	[ICRA]BBB (Negative) / [ICRA]A3+	Dec 14, 2023	[ICRA]BBB (Negative )/ [ICRA]A3+	Dec 02, 2022	[ICRA]BBB+ (Stable)/ [ICRA]A2	Sep 24, 2021	[ICRA]A-@ / [ICRA]A2+@

Non fund-based working capital facilities	Short term	-		-	-	-	-	-	-	-	Sep 24, 2021	[ICRA]A2 +@
---	------------	---	--	---	---	---	---	---	---	---	--------------	-------------

@= Under Watch with Negative Implications

## 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	Not applicable

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: [Click Here](#)

#### Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loans	FY2022-FY2024	NA	FY2026-FY2031	102.07	[ICRA]BBB- (Negative)
NA	Cash Credit	NA	NA	NA	84.00	[ICRA]BBB- (Negative)
NA	Unallocated	NA	NA	NA	138.93	[ICRA]BBB- (Negative)/ [ICRA]A3

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

## ANALYST CONTACTS

**Shamsher Dewan**

+91 1244545300

[shamsherd@icraindia.com](mailto:shamsherd@icraindia.com)

**Srikumar Krishnamurthy**

+91 44 4596 4318

[ksrikumar@icraindia.com](mailto:ksrikumar@icraindia.com)

**Ramakrishnan G S**

+91 44 4596 4300

[g.ramakrishnan@icraindia.com](mailto:g.ramakrishnan@icraindia.com)

**Vilasagaram Nandakishore**

9140 6939 6407

[vilasagaram.nandakishore@icraindia.com](mailto:vilasagaram.nandakishore@icraindia.com)

## RELATIONSHIP CONTACT

**L. Shivakumar**

+91 22 6114 3406

[shivakumar@icraindia.com](mailto:shivakumar@icraindia.com)

## MEDIA AND PUBLIC RELATIONS CONTACT

**Ms. Naznin Prodhani**

Tel: +91 124 4545 860

[communications@icraindia.com](mailto:communications@icraindia.com)

## HELPLINE FOR BUSINESS QUERIES

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

[info@icraindia.com](mailto:info@icraindia.com)

## ABOUT ICRA LIMITED

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit [www.icra.in](http://www.icra.in)

## ICRA Limited



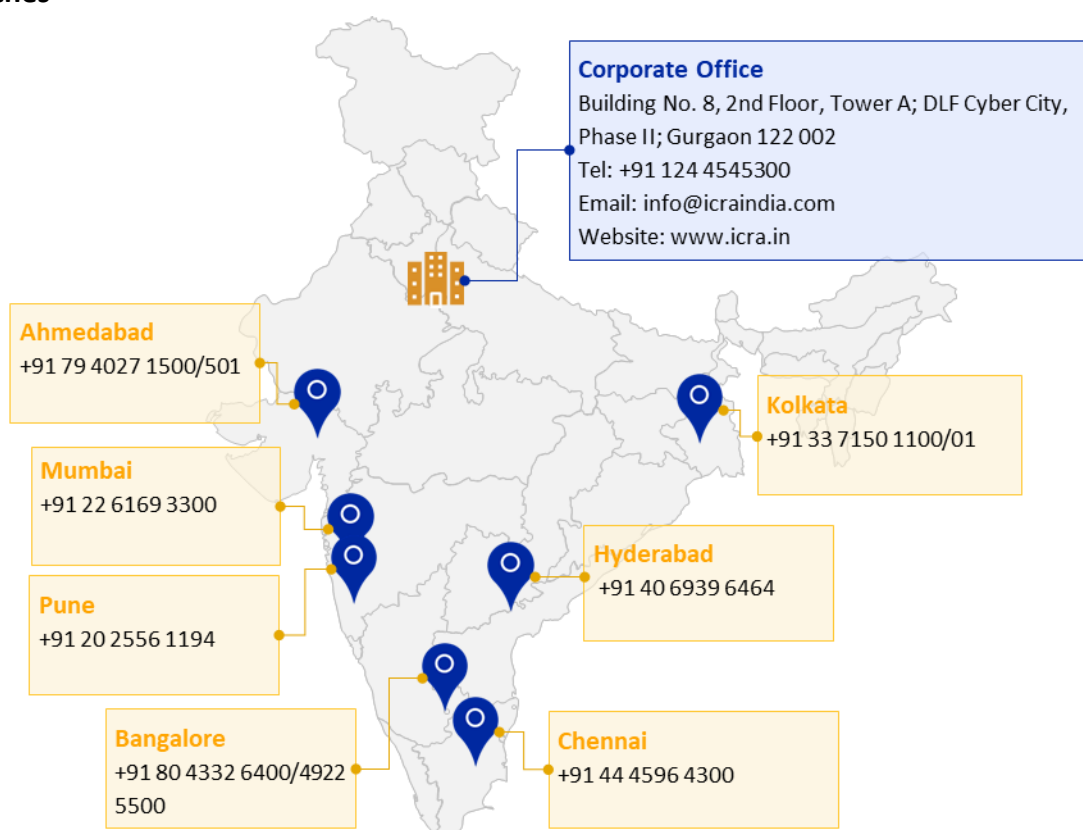
### Registered Office

B-710, Statesman House, 148 Barakhamba Road, New Delhi-110001

Tel: +91 11 23357940-45



### Branches



© Copyright, 2025 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website [www.icra.in](http://www.icra.in) or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.