

October 06, 2023^(Revised)

Sp Textile Processors Private Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term- Fund Based - Cash Credit	6.50	6.50	[ICRA]BB+(Stable); reaffirmed
Short Term- Unallocated	0.25	0.25	[ICRA]A4+; reaffirmed
Total Limits	6.75	6.75	

*Instrument details are provided in Annexure-I

Rationale

The ratings reaffirmation reflects improved performance of Sp Textile Processors Private Limited (SPTPPL) in FY2023 and the financial flexibility it derives for being a subsidiary of SP Spinning Mills Private Limited (SPSMPL, rated at [ICRA]BBB-(Stable)/[ICRA]A3). It is likely to receive support from SPSMPL in case of any funding requirement. SPTPPL's revenues increased by 8.3% in FY2023, and cash accruals improved to Rs.2.3 crore, supported by a steady order flow from large customers. SPTPPL's key credit metrics improved in FY2023 with Total Debt/OPBDITA of 3.5 times (5.4 times in FY2022) and an interest coverage ratio of 2.6 times (1.6 times in FY2022). Revenues and earnings of the company in FY2024 are expected to be supported by steady demand from large customers. The ratings also factor in SPTPPL's established presence in the yarn dyeing and woven fabric manufacturing segments and its long relationships with leading customers, which have driven volume growth over the years. The ratings remain constrained by its moderate scale of operations with thin margins and a stretched financial profile, characterised by modest albeit improving coverage metrics and a tight liquidity position.

The Stable outlook reflects ICRA's expectation that SPTPPL's performance will continue to benefit from its established presence in the industry and long relationships with its key customers, aiding in repeat orders.

Key rating drivers and their description

Credit strengths

Established presence of promoters in the industry spanning over three decades – SPTPPL is an established player in Tamil Nadu's yarn dyeing and grey fabric market, with presence for over three decades in the textile business. SPTPPL is among the few organised processing entities operating in the region. It has been classified as an A-grade dye house by leading global apparel companies. SPTPPL enjoys long relationship with its major customers, which has lent some stability to its volumes.

Financial flexibility derived from linkages with parent company – SPTPPL derives financial flexibility from its linkages with SPSMPL. The latter is an established company in the spinning market of Tamil Nadu, predominantly operating in the range of 20's to 60's count. As a part of vertical integration and expansion of the Group, SPTPPL was established to cater to the yarn dyeing requirements in the textile industry. SPSMPL holds a 91.74% stake in SPTPPL. In case of any additional liquidity support required, the parent entity is expected to extend funding support.

Credit challenges

Moderate scale of operations – SPTPPL has a moderate scale of operations with revenues of ~Rs.90 crore in FY2023. SPTPPL operates in an intensely competitive and fragmented textile processing industry, which mainly comprises unorganised players. The company's operating margins remained moderate at 3-4% and are yet to reach the pre-Covid level on account of high

input costs and limited pricing flexibility. Besides, its moderate scale of operations constrains profitability and benefits from the economies of scale. However, the promoter Group has forward integrated through addition of looms in a Group company, SP Textile Mills LLP, incorporated in 2016. The same undertakes a portion of weaving requirements of dyed yarn and processing of grey fabric and has reduced the lead time of servicing customers, which is expected to improve the performance of SPTPPL, going forward.

Financial profile characterised by modest credit metrics – SPTPPL’s debt protection metrics have remained modest in FY2023, with total debt to operating profits and debt service coverage ratio at 3.5 times and 1.6 times, respectively owing to thin earnings from operations. However, a portion of the long-term debt is in the form of unsecured loans from promoters with no stated repayments. Further, with the expected increase in earnings and lower debt level in the coming years, its coverage metrics are likely to improve over the medium term.

Liquidity position: Stretched

SPTPPL’s liquidity position remains tight, given the high working capital requirements in the business and thin earnings from operations. The average utilisation of working capital limits stood at ~95% over the last 12 months ended in August 2023. Its liquidity position over the years has been supported by unsecured loans infused by the promoters and additional Covid emergency lines drawn in FY2021. While SPTPPL’s cash flows are expected to remain tight, its liquidity position is likely to be aided by the funding support from its parent, along with timely extension of working capital limits by the banks. The company is expected to generate fund flow from operations of ~Rs.2 crore against debt repayment obligations of Rs.1.05 crore in FY2024.

Rating sensitivities

Positive factors – ICRA could upgrade SPTPPL’s ratings if the company is able to register a sustained healthy growth in revenues and earnings, which would improve its coverage metrics and liquidity position. The ratings could also be upgraded if there is a significant improvement in the credit profile of its parent company.

Negative factors – Pressure on the ratings could arise if there is any sustained pressure on SPTPPL’s operating performance or if its liquidity position weakens further. Also, any deterioration in the credit profile of the parent, weakening of linkages and/or lack of timely support from the parent could also result in ratings downgrade. Key credit metrics, which could trigger ratings downgrade, include the interest coverage reducing to less than 2 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Entities in Textile Industry - Fabric
Parent/Group support	The ratings factor in the very high likelihood of SPSMPL extending financial support to SPTPPL should there be a need, to protect its reputation from the consequences of a Group entity’s distress. SPTPPL holds high strategic importance for SPSMPL, and the common name is shared by both the companies.
Consolidation/Standalone	The ratings are based on the standalone financial statements of the rated entity.

About the company

SPTPPL, incorporated in 1993, is primarily involved in the business of yarn dyeing and fabric processing with more than 95% of its revenues coming from the fabric processing division. The company is a subsidiary of SP Spinning Mills Private Limited (with a shareholding of 91.7%), which is involved in the spinning of cotton yarn. The company's operations are managed by its promoter, Mr. P. Shanmukham and his sons, Mr. S. Karthikeyan and Mr. S. Saravana Perumal.

Key financial indicators

	FY2022	FY2023
Operating income	82.6	89.5
PAT	-0.2	0.3
OPBDIT/OI	2.9%	4.0%
PAT/OI	-0.3%	0.4%
Total outside liabilities/Tangible net worth (times)	3.7	2.6
Total debt/OPBDIT (times)	5.4	3.5
Interest coverage (times)	1.9	2.6

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

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2024)		Chronology of rating history for the past 3 years			
		Amount rated (Rs. crore)	Amount outstanding as of Mar 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
				Oct 06, 2023	September 29, 2022	Aug 30, 2021	Oct 05, 2020
1 Fund based – Cash Credit	Long term	6.50	-	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)
2 Unallocated	Short term	0.25	-	[ICRA]A4+	[ICRA]A4+	[ICRA]A4+	[ICRA]A4+

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based – Cash Credit	Simple
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	Cash Credit	NA	NA	NA	6.50	[ICRA]BB+ (Stable)
NA	Unallotted	NA	NA	NA	0.25	[ICRA]A4+

Source: Company

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

Corrigendum:

Rationale dated October 06, 2023, has been corrected with revision as detailed below:

In the summary of rating action table of the rationale on Page No. 1, the unallocated instrument name has been inadvertently mentioned as long term instead of short term which has been corrected.

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