November 23, 2023

Adisankara Spinning Mills 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 Term Loans	8.00	5.70	[ICRA]BBB (Stable); reaffirmed
Long-term Fund-based Working Capital Facilities	75.00	75.00	[ICRA]BBB (Stable); reaffirmed
Long-term/Short-term Unallocated	47.00	49.30	[ICRA]BBB (Stable)/ [ICRA]A3+; reaffirmed
Total	**130.00**	**130.00**	

**Instrument details are provided in Annexure-I*

Rationale

The ratings reaffirmation for Adisankara Spinning Mills Private Limited (ASMPL/ the company) considers the company's established presence in the knitted yarn market of Tamil Nadu, extensive experience of its promoters in the spinning industry and its comfortable capital structure. ASMPL's operating performance in FY2023 (provisional numbers) had been constrained due to adverse operating environment in the spinning industry. Amid weak demand, the company's revenues declined by ~20% in FY2023 primarily due to a ~34% fall in yarn volumes and ~24% dip in fabric volumes, despite increase in realisations. Nonetheless, cotton fibre prices witnessed a steeper increase vis-à-vis the cotton yarn realisations, leading to a contraction in the contribution levels. The operating margin contracted and the coverage indicators deteriorated on the back of operating losses incurred in FY2023. Despite the expected increase in the overall volumes, a marginal fall in revenues is expected in the current fiscal owing to decline in realisations. Also, a marginal improvement in margins is expected in the current fiscal with softening of raw material costs. The coverage metrics, in turn, are expected to improve due to recovery in profitability. Nonetheless, the coverage metrics are likely to remain lower than the levels witnessed in FY2022.

The ratings are, however, constrained by the commoditised nature of the company's products, which coupled with the fragmented industry structure, result in limited pricing power, keeping profitability under check. Further, the ratings factor in the high working capital intensity of ASMPL's operations due to the seasonal nature of cotton availability that requires stocking during the harvest season, making the profitability vulnerable to volatility in cotton prices.

The Stable outlook on the long-term rating reflects ICRA's opinion that a recovery in demand would help the company report steady revenues and profitability. Besides, relatively lower debt levels are expected to translate into adequate debt protection metrics for the company.

Key rating drivers and their description

Credit strengths

Established presence in spinning industry with extensive experience of its promoters – ASMPL had been a part of the erstwhile SSM Group, with sizeable capacities in the spinning and fabric segments. The promoters have been involved in the hosiery yarn market in Tamil Nadu (which includes the large hosiery hub in Tirupur) since past many years and have extensive experience in the spinning industry. The company enjoys an established presence across other key domestic and export markets, which also supports its healthy scale of operations.

Comfortable capital structure – ASMPL's capital structure remains conservative, as reflected in Total Debt/ Tangible Net Worth of 0.2 times and Total Outside Liabilities/ Tangible Net Worth of 0.3 times as on March 31, 2023, aided by the strong net worth base built over the years. The capital structure is expected to remain comfortable, going forward. While the coverage metrics deteriorated in FY2023 on the back of a decline in profitability, the same is expected to improve to some extent in the current fiscal with the expected recovery in profitability.

Credit challenges

Working capital intensive operations; susceptible to volatility in cotton and cotton yarn prices – Like other entities in the spinning sector, ASMPL stocks cotton during the harvest season from October to March. This practice exposes it to the fluctuations in cotton and hence cotton yarn prices during the non-harvest period as the procurement cost for ASMPL becomes fixed. This also results in a high inventory position for the company, particularly during the peak season. Besides high receivables position, this results in high working capital intensity for the company, as indicated by the Net Working Capital/ Operating Income of ~30% in FY2023 (previous year: 31%).

Commoditised nature of yarn and 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 relatively lower value addition. As a result, it enjoys limited pricing power, which is likely to keep its profitability under check.

Liquidity position: Adequate

ASMPL's liquidity position is expected to remain adequate, supported by steady earnings from operations and adequate unutilised lines of credit. The average fund-based limits utilisation over the last 12 months period ending in August 2023 stood at a moderate level of around 70%. The buffer in working capital limits stood at ~Rs. 20 crore as on August 31, 2023. The annual scheduled debt repayment for the company stands at Rs. 4.2 crore for FY2024 and Rs. 1.5 crore for FY2025.

Rating sensitivities

Positive factors – The ratings can be upgraded if there is a healthy and sustained increase in the company's scale of operations and profits, while improving the debt protection metrics.

Negative factors – The ratings could be downgraded if there is a 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 Total Debt/ OPBITDA exceeding 2.7 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in the Indian textiles Industry- Spinning
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the standalone financials of ASMPL.

About the company

Established in 1996, Adisankara Spinning Mills Private Limited operates with an installed capacity of 54,480 spindles, ~500 stitching machines and 27 knitting machines. Located in Dindigul, Tamil Nadu, ASMPL produces cotton yarn in the counts ranging from 20s to 40s. It also produces knitted fabric and inner garments, albeit at a small scale. ASMPL sells its produce mainly to the domestic customers. The company owns windmills with an installed capacity of 15.6 MW and has solar power plants with an installed capacity of 7.63 MW.

Key financial indicators

	FY2022 (Audited)	FY2023 (Provisional)
Operating income	406.8	323.3
PAT	41.3	(13.6)
OPBDIT/OI	16.8.%	(0.7%)
PAT/OI	10.2.%	(4.2%)
Total outside liabilities/Tangible net worth (times)	0.4	0.3
Total debt/OPBDIT (times)	0.8	(18.7)
Interest coverage (times)	14.3	(0.7)

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	Current rating (FY2024)				Chronology of rating history for the past 3 years			
		Type	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	
					Nov 23, 2023	Dec 08, 2022	Sep 24, 2021	Sep 28, 2020	May 04, 2020
1	**Term loans**	Long term	5.7	5.7	**[ICRA]BBB (Stable)**	**[ICRA]BBB (Stable)**	**[ICRA]BBB&**	**[ICRA]BBB@**	**[ICRA]A-@**
2	**Fund-based Working capital facilities**	Long term	75.00	--	**[ICRA]BBB (Stable)**	**[ICRA]BBB (Stable)**	**[ICRA]BBB&**	**[ICRA]BBB@**	**[ICRA]A-@**
3	**Non fund-based working capital facilities**	Short term	--	--	--	--	**[ICRA]A3+&**	**[ICRA]A3+@**	**[ICRA]A2+@**
4	**Unallocated Limits**	Long term and short term	49.30	--	**[ICRA]BBB (Stable)/ [ICRA]A3+**	**[ICRA]BBB (Stable)/ [ICRA]A3+**	**[ICRA]BBB&/ [ICRA]A3+&**	**[ICRA]BBB@/ [ICRA]A3+@**	**[ICRA]A-@ /[ICRA]A2+@**

&= Under Watch with Developing Implications

@= Under Watch with Negative Implications

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based – Term Loan	Simple

Long-term fund-based – Cash Credit	Simple
Long-term/ Short -term – Unallocated Limits	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**	FY2020	NA	FY2026	5.7	[ICRA]BBB(Stable)
NA	**Fund-based working capital facilities**	NA	NA	NA	75.00	[ICRA]BBB(Stable)
NA	**Unallocated Limits**	NA	NA	NA	49.3	[ICRA]BBB (Stable)/ [ICRA]A3+

Source: Company

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

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About ICRA Limited:

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