

April 01, 2024

Be One Textiles Private Limited: [ICRA]BB-(Stable)/[ICRA]A4; Ratings assigned

Summary of rating action

| Instrument* | Current Rated Amount (Rs. crore) | Rating Action |
|----------------------------------|-------------------------------------|--|
| Long-term Term Loans | 60.00 | [ICRA]BB- (Stable); assigned |
| Long-term/Short-term Unallocated | 25.00 | [ICRA]BB- (Stable)/ [ICRA]A4; assigned |
| Total | 85.00 | |

*Instrument details are provided in Annexure-I

Rationale

For arriving at the ratings, ICRA has assessed the standalone credit profile of Be One Textiles Pvt Ltd (Be One) and notched up the standalone ratings factoring in the implicit support from its parent company Sri Shanmugavel Mills Pvt Ltd. (SSMPL), collectively referred to as the Group.

The assigned ratings consider the long track record and established position of the promoters in the textile industry and factor in the operational synergies enjoyed by the company being a part of the SSM Group.

The ratings, however, are constrained by the group's weak performance in FY2023 and the expected weak performance in FY2024 due to unfavourable demand conditions and volatility in cotton prices. Revenues declined by ~29% in FY2023 and are expected to further moderate in FY2024 owing to a weak demand scenario. While domestic cotton prices, after reaching a lifetime high in H1 FY2023, declined steadily in H2 FY2023. In 9M FY2024, cotton prices declined by ~25% compared to the average cotton prices in FY2023.

The group predominantly serves the domestic yarn market, with their contribution levels remaining low. Their operating margin contracted to 4.4% in FY2023 from ~13% in FY2022 and is expected to moderate further in FY2024. However, some comfort can be drawn from the integrated nature of operations and the captive solar and wind power units. The large debt-funded inorganic growth undertaken by the company in FY2023 and in the current fiscal are expected to strengthen the Group's market position and support its growth targets over the long term. However, the sizeable increase in debt levels has severely affected its debt coverage indicators. The coverage indicators deteriorated due to losses incurred in FY2023 and expected losses in FY2024.

ICRA also notes that the entity remains exposed to price risk owing to the fragmented industry structure, resulting in limited pricing power and vulnerability of its operations to volatility in cotton and cotton yarn prices.

The Stable outlook on the long-term rating reflects ICRA's expectation that the entity will likely sustain its operating metrics even as its revenue growth may moderate. Further, the outlook underlines ICRA's expectation that any incremental capex by the entity to further expand the capacity will be funded in a manner that allows for the durable maintenance of its debt protection metrics commensurate with the existing rating.

Key rating drivers and their description

Credit strengths

Established track record of promoter Group- SSMPL and Be One enjoy operational synergies as a part of the larger SSM Group. The Group is among the largest textile groups in South India, with sizeable capacities in the spinning and fabric segment. It is

the leading supplier in the medium and coarser count hosiery yarn market in Tamil Nadu (which includes the large hosiery hub in Tirupur) and maintains an established presence across other key domestic and export markets.

Credit challenges

Lower profitability and debt-funded capex incurred by the entity- The spinning industry is highly fragmented, with a significant share held by the unorganised segment, limiting its pricing power and likely constraining profitability. Margins over the years have been supported to an extent by the captive power generation and focus on cost saving. Despite these efforts, the Group incurred losses in FY2023 and is expected to do so in FY2024. The company's product portfolio is concentrated towards medium and coarse-count yarns, resulting in relatively lower value addition and restricting its operating margins. Further, with a large debt-funded capex incurred by the Group, it is exposed to high repayment obligations, keeping its coverage matrices under pressure.

Exposure to project stabilisation risk with high debt repayment obligations- Be One has recently undertaken a greenfield expansion and has set up an OE yarn manufacturing facility with a capacity of 3,500 rotors. The overall cost of Rs. 117 crore was incurred towards setting up the rotor unit, funded through term loans of Rs. 60 crore and Rs. 57 crore of unsecured loans/equity from Sri Shanmugavel Mills Pvt Ltd. In the current fiscal, until February 2024 (representing 3-4 months of operations), the entity has generated a turnover of Rs. 20 crore. The project is exposed to elevated market and stabilisation risks, given the project has recently commenced operations and the risks persist until operations stabilise.

Susceptibility to volatility in cotton and cotton yarn prices- The Group operates in a highly competitive and commoditised spinning industry characterised by minimal product differentiation and fragmentation, restricting pricing flexibility. In addition, the requirement to stock cotton during the harvest season makes operations working capital intensive and exposes profitability to fluctuations in cotton prices. In the past, pressure on yarn realisations constrained the contribution levels of the entities.

Liquidity position: Stretched

Be One's liquidity position is expected to remain stretched, with debt repayment obligations starting from FY2025. Its debt repayment obligations are estimated to be at ~Rs. 6 crore in FY2025 and Rs. 9 crore in FY2026. However, the entity is expected to incur cash losses in FY2024, with a revival anticipated in FY2025, which would partially support the debt repayment obligations.

Rating sensitivities

Positive factors – The ratings can be upgraded if there is a healthy and sustained increase in profitability with improvement in liquidity profile and debt protection metrics. Specific credit metrics that could lead to an upgrade include a debt service coverage ratio of more than 1.3x on a sustained basis.

Negative factors – The ratings could be downgraded if there is sustained pressure on the company's operating performance or in case of a deterioration witnessed in the credit profile of its support provider or any large debt-funded capex, which would adversely impact the liquidity and debt protection metrics.

Analytical approach

| Analytical Approach | Comments |
|---------------------------------|---|
| Applicable rating methodologies | Corporate Credit Rating Methodology Rating Methodology for Entities in the Textile Industry - Spinning Rating methodology for entities in the Indian Textile Industry-Fabric Making |
| Parent/Group support | Implicit support from SSMPL ([ICRA]BB/[ICRA]A4). Be One Textiles Private Ltd is a fully owned subsidiary of SSMPL and enjoys operational and financial linkages because of their common ownership. |
| Consolidation/Standalone | ICRA has taken a standalone view of Be One Textiles Pvt. Ltd. |

About the company

Incorporated on June 16, 2022, Be One is a wholly owned subsidiary of Sri Shanmugavel Mills Pvt Ltd. The entity manufactures OE yarn and has a capacity of 3,500 rotors and recently commenced operations w.e.f. November 09, 2023.

SSMPL was set up in 1980 and is engaged in the manufacturing of cotton yarn and knitted fabric. The spinning division of SSMPL produces counts ranging from 28s to 50s (with average counts of 30s+ being produced). A bulk portion of the yarn manufactured by the company finds its application in the knitting fabric segment. Following the business restructuring process within the SSM Group and the acquisition of a spinning unit in FY2023, the company has 1,65,840 spindles, 768 rotors, 240 looms, 339 knitting machines and windmills of 25.7 MW.

Key financial indicators

| | FY2023 |
|--|---------|
| | Audited |
| Operating income | - |
| PAT | - |
| OPBDITA/OI | - |
| PAT/OI | - |
| Total outside liabilities/Tangible net worth (times) | 367.4 |
| Total debt/OPBDITA (times) | - |
| Interest coverage (times) | - |

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 (FY2025) | | | Chronology of rating history for the past 3 years | | |
|------------|----------------------|--------------------------|---|---|---|-------------------------|-------------------------|
| | | Amount rated (Rs. crore) | Amount outstanding as of Feb 29, 2024 (Rs. crore) | Date & rating in FY2025 April 01, 2024 | Date & rating in FY2024 | Date & rating in FY2023 | Date & rating in FY2022 |
| 1 | Term loan | 60.00 | 60.00 | [ICRA]BB-(Stable) | - | - | - |
| 4 | Unallocated facility | 25.00 | - | [ICRA]BB-(Stable)/[ICRA]A4 | - | - | - |

Complexity level of the rated instruments

| Instrument | Complexity Indicator |
|----------------------|----------------------|
| Term Loan | Simple |
| Unallocated facility | 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 Loan | FY2023 | - | FY2030 | 60.00 | [ICRA]BB- (Stable) |
| NA | Unallocated facility | - | - | - | 25.00 | [ICRA]BB- (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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