

August 13, 2024

## Sudhan Spinning Mills Private Limited: Ratings reaffirmed; outlook revised to Stable from Negative

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term – term loans	11.25	8.05	[ICRA]BBB (Stable); reaffirmed; outlook revised to Stable from Negative
Long term – cash credit	70.00	70.00	[ICRA]BBB (Stable); reaffirmed; outlook revised to Stable from Negative
Short term – non-fund based	30.00	30.00	[ICRA]A3+; reaffirmed
Short term – fund-based post shipment credit	0.00	30.00	[ICRA]A3+; reaffirmed
Long term/ short term – unallocated limits	88.75	61.95	[ICRA]BBB (Stable)/ [ICRA]A3+ reaffirmed; outlook revised to Stable from Negative
<b>Total</b>	<b>200.00</b>	<b>200.00</b>	

\*Instrument details are provided in Annexure-I

### Rationale

The revision in the outlook to Stable from Negative for Sudhan Spinning Mills Private Limited (SSMPL) factors in the moderate recovery in operational and financial performances in FY2024 and expected further recovery in FY2025. SSMPL registered a ~27% YoY revenue growth in FY2024 (provisional) and registered a minimal net profit of Rs. 0.8 crore against losses incurred in FY2023. Incremental export orders processed in FY2024, supported by both own production and traded volumes, led to an improvement in the overall performance. Further, a rise in the contribution levels supported an increase in the operating margin to 1.8% in FY2024 from -1.7% in FY2023. While export volumes are expected to moderate in FY2025, a surge in domestic demand would offset this impact. While there had been a marginal increase in power cost sourced from the state electricity grid, 60-65% of its power requirements met from captive power sources support the entity's profitability to an extent. Cash accruals and debt coverage indicators have improved in FY2024 on a YoY basis, however, the same continued to remain lower compared to the levels witnessed in FY2022. The ratings are further supported by the company's established presence in the yarn market of Tamil Nadu and extensive experience of its promoters in the spinning industry. The ratings also continue to be supported by SSMPL's conservative capital structure, supported by its strong net worth base.

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

The Stable outlook on the long-term rating factors in ICRA's expectation that the revenues and earnings of the company are likely to improve in the near term with recovery in export demand in downstream companies. Besides, relatively lower debt levels coupled with no major capex plan in the near-to-medium term would translate into adequate debt protection metrics for the company, going forward.

## Key rating drivers and their description

### Credit strengths

**Established presence in cotton spinning industry and operational synergies for being a part of the resultant Group** – SSMPL enjoys operational synergies for being a part of the companies under the resultant Group<sup>1</sup> post the business restructuring completed vide the National Company Law Tribunal (NCLT) order issued in FY2023 (retrospectively with effect from FY2021). The established brand name of the Sudhan brand enabled the company to improve both its operational and financial performances even after the family business restructuring. The Group is among the largest textile groups in South India, with sizeable capacities in the spinning and fabric segments. The Group is the leading supplier of medium and coarser count hosiery yarn market in Tamil Nadu (which includes the large hosiery hub in Tirupur) and enjoys an established presence across other key domestic and export markets.

**Conservative capital structure** – The capital structure remains conservative, primarily on the back of lower debt and strong net worth base. Its total debt/ Net Worth stood at 0.3 time as on March 31, 2024. Going forward as well, the capital structure is expected to remain conservative, supported by a healthy net worth base. SSMPL's current TOL/TNW stood at 0.5 times as on March 31, 2024 and is expected to improve further in the next couple of years with no major debt-funded expansions planned by the entity.

**Recovery in profitability and coverage metrics with recovery in demand environment** – SSMPL registered revenues of Rs. 468 crore (with ~27% YoY growth) in FY2024 (provisional) and a marginal net profit of Rs. 0.8 crore, against losses incurred in FY2023. Further, improvement in the contribution levels for SSMPL helped increase its operating margin to 1.8% in FY2024 (provisional) from -1.7% in FY2023. The overall financial performance continues to benefit from its in-house power generation capacities (16 MW windmill), which meet 60-65% of the overall requirement. The existence of captive power generation facilities supports SSMPL's operating profitability, given the increasing costs on power sourced from the state power electricity grid. Cash accruals and debt coverage indicators have also improved in FY2024 on a YoY basis, however, the same continue to remain lower than the levels witnessed in FY2022.

### Credit challenges

**Working capital intensive operations; susceptible to volatility in cotton and cotton yarn prices** – Like other entities in the spinning sector, SSMPL 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 SSMPL becomes fixed. This also results in a high inventory position for the company, particularly during the peak season. However, the company's cotton stock was lower than the past years as of March 31, 2024, due to volatility in cotton prices and constraints in sourcing cotton at competitive prices. This resulted in lower working capital intensity in FY2024 with NWC/ OI of ~37% in comparison with NWC/OI of 45% witnessed in FY2023.

**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, limited pricing power is likely to keep its profitability under check.

<sup>1</sup> The five companies under the resultant Group include: (a) Sri Shanmugavel Mills Private Limited, (b) Sudhan Spinning Mills Private Limited (c) Vedha Spinning Mills Private Limited, (d) Sri Lalithambighai Textiles Private Limited and (e) Sri Matha Spinning Mills Private Limited

## Liquidity position: Adequate

SSMPL's liquidity position is expected to remain adequate, supported by cash and bank balance of Rs. 5 crore as on July 30, 2024 and a buffer of ~46% on the sanctioned lines of Rs. 70 crore. The average utilisation during the last 12-month period ending in June 2024 stood at ~54%. Against the expected cash accruals of Rs.9-10-crore, the entity has debt repayments obligation of Rs. 3.3 crore in FY2025. Overall, ICRA expects SSMPL to be able to meet its near-term commitments through internal as well as external sources.

## 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 maintaining comfortable liquidity profile and debt protection metrics.

**Negative factors** – The ratings can be downgraded if there is a sustained pressure on the company's revenues and profitability or a stretch in its working capital cycle, which would adversely impact its coverage metrics and liquidity position. Specific credit metric includes the interest cover remaining below 3.5 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	The ratings are based on the standalone financials of SSMPL

## About the company

SSMPL, incorporated in 1988, started exporting yarn in 1994, primarily under the Sudhan brand. Over the years, the Sudhan brand has developed an established presence in the export markets. As a part of the business restructuring within the erstwhile SSM Group, SSMPL had filed a scheme of arrangement with the NCLT. Post the restructuring, the company has 54,432 spindles and windmills of 16.85 MW. Prior to the restructuring, the company had an installed capacity of 1,00,128 spindles, 768 rotors, one knitting machine and windmills of 29.0 MW.

## Key financial indicators

	FY2023	FY2024*
Operating income	368.9	468.2
PAT	(10.6)	0.8
OPBDIT/OI	(1.7%)	1.8%
PAT/OI	(2.9%)	0.2%
Total outside liabilities/Tangible net worth (times)	0.3	0.5
Total debt/OPBDIT (times)	(7.7)	7.1
Interest coverage (times)	(1.4)	1.4

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		
		Type	Amount rated (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022
				Aug 13, 2024	Aug 28, 2023	Oct 31, 2022	Sep 24, 2021
1	Term Loan	Long Term	8.05	[ICRA]BBB (Stable)	[ICRA]BBB (Negative)	[ICRA]BBB+ (Negative)	[ICRA]BBB+&
2	Cash Credit	Long Term	70.00	[ICRA]BBB (Stable)	[ICRA]BBB (Negative)	[ICRA]BBB+ (Negative)	[ICRA]BBB+&
3	Non-Fund Based Limits	Short Term	30.00	[ICRA]A3+	[ICRA]A3+	[ICRA]A2	[ICRA]A2&
4	Post Shipment Credit	Short Term	30.00	[ICRA]A3+	--	--	--
5	Unallocated Limits	Long Term/ Short Term	61.95	[ICRA]BBB (Stable)/ [ICRA]A3+	[ICRA]BBB (Negative)/ [ICRA]A3+	[ICRA]BBB+ (Negative)/ [ICRA]A2	[ICRA]BBB+&/ [ICRA]A2&

&= Under watch with developing implications

## Complexity level of the rated instruments

Instrument	Complexity Indicator
Long term – term loans	Simple
Long term – cash credit	Simple
Short term – non-fund based	Very Simple
Short term – fund-based post shipment 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	Long term – term loans	FY2021	9-10%	FY2028	8.05	[ICRA]BBB (Stable)
NA	Long term – cash credit	NA	NA	NA	70.00	[ICRA]BBB (Stable)
NA	Short term – non-fund based	NA	NA	NA	30.00	[ICRA]A3+
NA	Short term – Fund-based Post Shipment Credit	NA	NA	NA	30.00	[ICRA]A3+
NA	Long term/ short term – unallocated limits	NA	NA	NA	61.95	[ICRA]BBB (Stable)/ [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

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