October 29, 2024

Prasuna Vamsikrishna Spinning Mills Private Limited: Ratings downgraded to [ICRA]BBB-(Stable)/[ICRA]A3

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term – Fund based- Cash credit	9.00	9.00	[ICRA]BBB-(Stable); downgraded from [ICRA]BBB(Stable)
Short term – Fund based limit (sub-limit)	(4.00)	(4.00)	[ICRA]A3; downgraded from [ICRA]A3+
Short term –Non-fund based	0.20	0.20	[ICRA]A3; downgraded from [ICRA]A3+
Total	**9.20**	**9.20**	

Instrument details are provided in Annexure-I

Rationale

The revision in ratings on the bank lines of Prasuna Vamsikrishna Spinning Mills Private Limited (PVSMPL) considers weaker-than-expected performance in FY2024 amid lower realisations and the possibility of sustained pressure on realisation in the current fiscal despite an expected modest recovery over the level witnessed in FY2024. The company's revenues declined by 15.7% in FY2024 on the back of lower realisations. Further, unfavourable cotton prices and lack of economies of scale resulted in net losses of Rs.7.9 crore in FY2024 against net profit of Rs.2.9 crore in FY2023, weakening its debt protection metrics. Owing to losses, PVSMPL's interest coverage and total debt/operating profit deteriorated to -2.1 times and -5.5 times in FY2024, respectively, from 5.4 times and 1.8 times, respectively in FY2023. Further, the entity is planning to incur a large debt-funded 8.2-MW solar plant addition at an estimated cost of Rs. 26.5 crore in the current fiscal. While the large debt-funded solar plant addition is expected to reduce its power costs, PVSMPL's coverage metrics are likely to remain moderate over the medium term. The ratings also remain constrained by the company's modest scale of operations with limited product diversification in a fragmented industry, characterised by intense competition, which resulted in modest margins and thin return indicators. Moreover, PVSMPL's earnings remain susceptible to the fluctuations in cotton and yarn prices, given the high stock levels held at the end of the procurement season and limited pricing flexibility enjoyed in the business.

Nonetheless, the ratings continue to factor in the established presence of the company in the industry, along with its comfortable capitalisation level and liquidity position.

The Stable outlook on the long-term rating reflects ICRA's expectation that the company is likely to improve its earnings and coverage metrics. Further, the outlook underlines ICRA's expectation that the entity's incremental capex, if any, to further increase the capacity will be funded in a manner that it is able to durably maintain its debt protection metrics commensurate with the existing ratings.

Key rating drivers and their description

Credit strengths

Established track record of operations in spinning industry – PVSMPL is an established player in the domestic market, with a presence of about two decades in the medium and finer count cotton yarn segment. It enjoys a long relationship with suppliers and customers and has presence in the value-added segment, lending some stability to volumes and earnings over the years. It also enjoys location-specific advantages as the plant is located near the major cotton growing belt of Guntur, Andhra Pradesh, resulting in better access to all raw materials and lower logistics costs.

Comfortable capital structure – Although there has been a moderate reduction in PVSMPL's net worth position due to losses incurred in FY2024, PVSMPL's capital structure continues to be conservative, as reflected by TD/TNW of 0.4 times as on March 31, 2024 (0.2 times as on March 31, 2023) due to lower dependence on external debt. The entity is planning to set up an 8.2-MW solar power plant at a cost of Rs. 26.5 crore, proposed to be funded through debt of Rs. 13.0 crore and internal accruals. While the leverage indicators are expected to moderate in FY2025 with proposed debt-funded capex of ~Rs. 26.5 crore, they are expected to remain within the comfortable level.

Credit challenges

Moderate scale of operations and weakening debt protection metrics – PVSMPL's scale of operations remains modest with an operating income (OI) of Rs. 77.3 crore in FY2024 (down ~15.7% on a YoY basis due to weak demand environment). Revenues have been limited primarily due to capacity constraints, which limit the economies of scale to an extent in a capital-intensive sector. Further, given the unfavourable cotton prices and pressure on yarn realisations, PVSMPL had reported cash loss of Rs. 4.8 crore in FY2024. Its interest cover and total debt/operating profit weakened to -2.1 and -5.5 times, respectively, in FY2024 compared to 5.4 times and 1.8 times, respectively in FY2023. While the debt coverage indicators are expected to moderate over the near-to-medium term with the planned debt-funded capex, cost savings accruing from addition of the solar power plant is expected to improve its operating profitability.

Working capital intensive operations; susceptible to volatility in cotton and cotton yarn prices – Like other entities in the spinning sector, PVSMPL 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 PVSMPL becomes fixed, which leads to a high inventory position for the company, particularly during the peak season. This results in a high working capital intensity for the company, as indicated by the Net Working Capital/ Operating Income of 59.9% in FY2024 (43.0% 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, it enjoys limited pricing power, which is likely to keep its profitability under check.

Liquidity position: Adequate

PVSMPL's liquidity position is likely to remain adequate, supported by the unutilised lines of credit enjoyed along with the expected improvement in earnings from operations. The utilisation of working capital limits is seasonal, peaking in March and moderating in the subsequent months with a reduction in inventory holding. The company had free cash and bank balances of ~Rs. 19.3 crore as of September 30, 2024, and the average utilisation of the sanctioned working capital limits stood minimal at 12.2% during the last 12 months ended in September 2024. In FY2025, there is a planned capital expenditure of Rs. 26.5 crore, proposed to be funded by debt of Rs. 13.0 crore and internal accruals. At present, the entity has no loan repayment obligation and repayment obligation is expected to increase to Rs. 1.3 crore in FY2026.

Rating sensitivities

Positive factors – PVSMPL's ratings may be upgraded if the company registers a significant growth in revenues and improves its profitability, debt protection metrics and liquidity position while maintaining a comfortable capital structure. Further, sizeable accretion to reserves, leading to an improvement in the net worth position, would also be required for ratings upgrade.

Negative factors – Pressure on PVSMPL's ratings could arise if there is sustained weakness in its operating performance or an elongation of its working capital cycle, adversely impacting its debt protection metrics and liquidity position. Specific credit metrics that could trigger ratings downgrade include DSCR of less than 1.6 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	[Corporate Credit Rating Methodology](#) [Textile - Spinning](#)
Parent/Group support	Not Applicable
Consolidation/Standalone	The ratings are based on the standalone financial profile of the company.

About the company

PVSMPL, incorporated in February 2004, produces cotton yarn in the medium and finer counts range. It produces ring-spun yarn in the count range between 40s and 80s, which are used in manufacturing finer woven fabric. Its products are sold to weaving units across India. Its manufacturing facility is in Guntur (Andhra Pradesh) and has a compact spinning system with an installed capacity of 24,000 spindles. The company is closely held by the promoters.

Key financial indicators (audited)

PVSMPL Standalone	FY2023	FY2024	H1 FY2025*
Operating income	91.8	77.3	42.0
PAT	2.9	-7.9	-0.9
OPBDIT/OI	8.6%	-4.4%	2.9%
PAT/OI	3.2%	-10.2%	-2.2%
Total outside liabilities/Tangible net worth (times)	0.4	0.5	0.3
Total debt/OPBDIT (times)	1.8	-5.5	3.3
Interest coverage (times)	5.4	-2.1	2.0

*Source: Company, ICRA Research; * Provisional numbers; All ratios as per ICRA's calculations; Amount 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

	Current rating (FY2025)			Chronology of rating history for the past 3 years					
				FY2024		FY2023		FY2022	
Instrument	Type	Amount Rated (Rs crore)	October 29, 2024	Date	Rating	Date	Rating	Date	Rating
Cash credit	Long Term	9.00	[ICRA]BBB- (Stable)	Aug 31, 2023	[ICRA]BBB (Stable)	May 10, 2022	[ICRA]BBB (Stable)	May 06, 2021	[ICRA]BBB (Stable)
Fund based limits (Sub-Limit)	Short Term	(4.00)	[ICRA]A3	Aug 31, 2023	[ICRA]A3+	May 10, 2022	[ICRA]A3+	May 06, 2021	[ICRA]A3+
Non-fund based	Short term	0.20	[ICRA]A3	Aug 31, 2023	[ICRA]A3+	May 10, 2022	[ICRA]A3+	May 06, 2021	[ICRA]A3+

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long term – Fund based - Cash credit	Simple
Short term – Fund based limit (sub-limit)	Very Simple

Short term – Non-fund based	Very Simple

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	9.00	[ICRA]BBB-(Stable)
NA	**Fund based (Sub-Limit)**	NA	NA	NA	(4.00)	[ICRA]A3
NA	**Non-fund based**	NA	NA	NA	0.20	[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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