

December 17, 2024

SP 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 - Cash credit	7.00	7.00	[ICRA]BBB-(Stable); reaffirmed
Short term – Non-fund based facilities	8.25	8.25	[ICRA]A3; reaffirmed
Long term-Unallocated	4.00	4.00	[ICRA]BBB-(Stable); reaffirmed
Total	19.25	19.25	

*Instrument details are provided in Annexure-I

Rationale

The ratings reaffirmation on the bank lines of SP Spinning Mills Private Limited (SSMPL) considers an expected improvement in operational and financial performance in FY2025, following a modest recovery in FY2024, on a YoY basis, supported by its established presence and increase in volumes processed. Despite a reduction in price realisation in FY2024 due to unfavourable demand conditions, moderation in raw material prices and increase in sales volumes aided an improvement in the operating margin. While debt coverage indicators have improved in FY2024 with interest coverage ratio and DSCR of 2.3 times and 1.5 times, respectively, against -0.1 times and 0.2 times, respectively, in FY2023, the same remained lower than the levels witnessed in FY2021 and FY2022. Nevertheless, its earnings and credit metrics are likely to improve in the current fiscal, aided by a gradual recovery in demand and the same remains a key rating monitorable. The ratings are further supported by the conservative capital structure of the entity, aided by relatively lower reliance on external debt and its captive power generation capacities supporting ~75% of its power requirements.

The ratings, however, remain constrained by the company's moderate scale of operation, which constrains the benefits arising from the economies of scale and limited pricing flexibility in an intensely competitive and fragmented cotton yarn industry. Further, the ratings factor in the working capital intensive nature of operations due to the seasonal nature of cotton availability that requires stocking during the harvest season, making the profitability vulnerable to volatile cotton prices.

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 maintain its debt protection metrics commensurate with the existing ratings.

Key rating drivers and their description

Credit strengths

Extensive experience of promoters and established presence in the industry – SSMPL has a long track record of operations, spanning over three decades in the spinning industry, with an established presence in manufacturing medium-count yarns (that have a relatively more stable demand in the weaving market of Salem region in Tamil Nadu). The promoters have long relationships with various stakeholders across the value chain, aiding in repeat orders from key customers. The company's profitability remains supported by the captive power generating windmill units and solar capacities, through which it is meeting around 75% of the power requirements.

Comfortable capital structure – SSMPL’s financial profile is characterised by a conservative capital structure and adequate liquidity position, aided by effective working capital management coupled with limited capital expenditure incurred. With an expected improvement in earnings and no major debt-funded capital expenditure proposed in the medium term, SSMPL’s leverage metrics and liquidity position are likely to remain adequate.

Credit challenges

Moderate scale of operations amid intense competition in spinning industry – SSMPL has a moderate scale of operation with an installed capacity of 24,144 spindles and 672 rotors, which limits the benefits arising from economies of scale. Further, it is exposed to intense competition in the cotton yarn manufacturing industry, characterised by minimal product differentiation and a fragmented nature of the industry, which constrains its pricing flexibility.

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 exposes it to the fluctuations in cotton and cotton yarn prices during the non-harvest period as the procurement cost becomes fixed. This also results in a high inventory position for the company, particularly during the peak season. Besides, increase in the receivables position results in moderately high working capital intensity for the company, as indicated by the net working capital/ operating income increasing to 25.9% in FY2024 (18.3% in FY2023).

Liquidity position: Adequate

SSMPL’s liquidity position is expected to remain adequate, supported by an adequate cash buffer. SSMPL has free cash and bank balances of Rs. 5.0 crore and undrawn working capital limits of Rs. 1.1 crore as on October 31, 2024. The average utilisation of the working capital limits stood minimal at 49.1% of its sanctioned limits of Rs. 7.0 crore during the last 12 months ending in October 2024 (utilisation percentage is inclusive of the ad-hoc limit of Rs. 5 crore sanctioned during January-June 2024). SSMPL has no major debt-funded capital expenditure plans and expected healthy cash accruals are likely to support its overall repayment of ~Rs. 0.9 crore in FY2025 (consolidated basis). Working capital limits of SSMPL have been enhanced to Rs. 12 crore from Rs. 7.0 crore in November 2024.

Rating sensitivities

Positive factors – The ratings may be upgraded if the company registers a healthy growth in revenues and earnings on a sustained basis, while maintaining its comfortable capital structure and liquidity position.

Negative factors – Pressure on SSMPL’s ratings may arise if there is any sharp decline in revenues or earnings or any significant deterioration in the working capital cycle, which would adversely impact its coverage metrics and liquidity position. Specific metrics that could trigger ratings downgrade include the company’s interest coverage falling below 2.8 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Textiles - Spinning
Parent/Group support	Not Applicable
Consolidation/Standalone	The ratings are based on SSMPL’s consolidated financial statements and the list of the companies considered for consolidation have been mentioned in Annexure-2

About the company

SSMPL was incorporated in 1979 with 2,656 spindles and progressively expanded to its current capacity of 24,144 spindles and 672 rotors. The company is closely held by the promoters and their family members, who have close to three decades of experience in the industry. It purchases cotton primarily from the domestic market and manufactures 100% cotton yarn with focus on medium and coarser counts. The company has a subsidiary, SP Textile Processors Private Limited, which is involved in yarn dyeing.

Key financial indicators (Audited)

	SSMPL Consolidated		SSMPL Standalone		
	FY2023	FY2024	FY2023	FY2024	H1FY2025*
Operating income	185.8	186.2	103.2	102.5	63.0
PAT	-4.4	-0.5	-4.7	-2.5	1.4
OPBDIT/OI	-0.1%	3.4%	-3.6%	-0.4%	4.7%
PAT/OI	-2.4%	-0.2%	-4.6%	-2.4%	2.3%
Total outside liabilities/Tangible net worth (times)	0.5	0.6	0.1	0.2	-
Total debt/OPBDIT (times)	-83.7	3.1	0.0	-15.3	-
Interest coverage (times)	-0.1	2.3	-65.0	-1.4	10.5

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

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				Chronology of rating history for the past 3 years					
	FY2025				FY2024		FY2023		FY2022	
	Type	Amount Rated (Rs crore)	Date	Rating	Date	Rating	Date	Rating	Date	Rating
Fund based – Cash credit	Long term	7.00	17-Dec-24	[ICRA]BBB-(Stable)	06-Oct-23	[ICRA]BBB-(Stable)	29-Sep-22	[ICRA]BBB-(Stable)	30-Aug-21	[ICRA]BBB-(Stable)
Non fund based	Short term	8.25	17-Dec-24	[ICRA]A3	06-Oct-23	[ICRA]A3	29-Sep-22	[ICRA]A3+	30-Aug-21	[ICRA]A3+
Unallocated	Long term	4.00	17-Dec-24	[ICRA]BBB-(Stable)	06-Oct-23	[ICRA]BBB-(Stable)	29-Sep-22	[ICRA]BBB-(Stable)	30-Aug-21	[ICRA]BBB-(Stable)

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long term – Fund based – Cash credit	Simple
Short term - Non fund based facility	Very Simple
Long 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	7.00	[ICRA]BBB-(Stable)
NA	Letter of credit/ Bank Guarantee	NA	NA	NA	8.25	[ICRA]A3
NA	Unallocated	NA	NA	NA	4.00	[ICRA]BBB-(Stable)

Source: Company

Annexure II: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
SP Textile Processors Private Limited	91.79%	Full Consolidation

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