

December 17, 2024

## SP Textile Processors 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	6.50	6.50	[ICRA]BB+(Stable); reaffirmed
Short term - Unallocated	0.25	0.25	[ICRA]A4+; reaffirmed
<b>Total</b>	<b>6.75</b>	<b>6.75</b>	

\*Instrument details are provided in Annexure-I

### Rationale

The ratings reaffirmation on the bank lines of SP Textile Processors Private Limited (STPPL) considers an expected improvement in operational and financial performances over the medium term, supported by its established presence in the yarn dyeing segment. Further, the ratings consider the financial flexibility it derives for being a subsidiary of SP Spinning Mills Private Limited (SSMPL, rated at [ICRA]BBB-(Stable)/ [ICRA]A3). Although revenues declined marginally by 1.3% in FY2024 on a YoY basis to Rs. 88.3 crore, moderation in raw material prices supported a 352 bps increase in the operating margin to 7.6% in FY2024 from 4.0% in FY2023. Besides increase in earnings and cash accruals, the debt coverage indicators have also improved in FY2024 with interest coverage ratio and total debt to operating profits of 2.8 times and 1.9 times, respectively, against 2.6 times and 3.1 times, respectively, in FY2023. Further, the coverage metrics are likely to remain adequate in the medium term, with expected steady earnings and in the absence of any major debt-funded capex plans by the company.

The ratings, however, remain constrained by its moderate scale of operations, which affects the benefits arising from the economies of scale. Further, there is inherent cyclicality associated with the textile sector and the profitability is vulnerable to fluctuations in raw material prices. ICRA also notes that STPPL has repaid unsecured loans from the promoters worth Rs. 1.8 crore between FY2024 and H1 FY2025 and the unsecured loan from promoters stood at Rs. 1.3 crore as on September 30, 2024.

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 presence of promoters in the industry spanning over three decades** – STPPL is an established regional player in yarn dyeing and grey fabric market, with presence for over three decades in the textile business. STPPL is among the few organised processing entities operating in the region. It has been classified as an A-grade dye house by leading global apparel companies. STPPL enjoys long relationships with its major customers, which have lent some stability to its volumes.

**Financial flexibility derived from linkages with parent company** – STPPL derives financial flexibility from its linkages with SSMPL. The latter is an established company in the spinning market of Tamil Nadu, predominantly operating in the range of medium count yarns. As a part of vertical integration and expansion of the Group, STPPL was established to cater to the yarn dyeing requirements in the textile industry. SSMPL holds a 91.8% stake in STPPL.

## Credit challenges

**Moderate scale of operations** – STPPL has a moderate scale of operations with revenues of Rs. 88.3 crore in FY2024, which constrain benefits from the economies of scale and profitability. However, the promoter Group has forward integrated through addition of looms in a Group company, SP Textile Mills LLP, incorporated in 2016. The same undertakes a portion of weaving requirements of dyed yarn and processing of grey fabric and has reduced the lead time of servicing customers, which is expected to improve the performance of STPPL, going forward.

**Intensely competitive and fragmented industry** – STPPL operates in an intensely competitive and fragmented textile processing industry, which mainly comprises unorganised players. Besides, its earnings remain vulnerable to fluctuations in raw material prices owing to limited pricing flexibility. Thus, any adverse movement in the price of key raw materials could affect its margins, as the company may not be able to pass on the price hike to its customers owing to stiff competition.

### Liquidity position: Stretched

STPPL's liquidity position is expected to remain stretched, given the working capital requirements in the business and a marginal buffer available in the working capital limits. The average utilisation of working capital limits stood at 93.5% of its sanctioned limit of Rs.8.5 crore over the last 12 months ended in September 2024. Its liquidity position has been supported by unsecured loans infused by the promoters over the years, and there have been withdrawals in the recent past. STPPL is expected to generate retained cash flows of ~Rs.3 crore and has debt repayment obligation of ~Rs. 0.9 crore in FY2025.

### Rating sensitivities

**Positive factors** – ICRA could upgrade STPPL's ratings if the company is able to register a sustained healthy growth in revenues and earnings, which would improve its coverage metrics and liquidity position. The ratings could also be upgraded if there is a significant improvement in the credit profile of its parent company.

**Negative factors** – Pressure on the ratings could arise if there is any sustained pressure on STPPL's operating performance or if its liquidity position weakens further. Also, any deterioration in the credit profile of the parent, weakening of linkages and/or lack of timely support from the parent could result in ratings downgrade. Key credit metrics, which could trigger ratings downgrade, include the interest coverage reducing to less than 2.0 times on a sustained basis.

### Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	<a href="#">Corporate Credit Rating Methodology</a>
Parent/Group support	The ratings factor in the very high likelihood of SSMPL extending financial support to STPPL should there be a need, to protect its reputation from the consequences of a Group entity's distress. SPTPPL holds high strategic importance for SSMPL, and the common name is shared by both the companies
Consolidation/Standalone	The ratings are based on the standalone financial statements of the rated entity

### About the company

STPPL, incorporated in 1993, is primarily involved in the business of yarn dyeing and it gets fabric weaving done on a job work basis. The company is a subsidiary of SP Spinning Mills Private Limited (with a shareholding of 91.8%), which is involved in the spinning of cotton yarn. STPPL's operations are currently managed by Mr. S. Karthikeyan.

### Key financial indicators (Audited)

Standalone	FY2023	FY2024
Operating income	89.5	88.3
PAT	0.3	2.0
OPBDIT/OI	4.0%	7.6%
PAT/OI	0.4%	2.3%
Total outside liabilities/Tangible net worth (times)	2.6	2.2
Total debt/OPBDIT (times)	3.1	1.9
Interest coverage (times)	2.6	2.8

Source: Company, ICRA Research; 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

Instrument	Type	Current rating			Chronology of rating history for the past 3 years					
		Amount Rated (Rs Crore)	Date	Rating	FY2024		FY2023		FY2022	
					Date	Rating	Date	Rating	Date	Rating
Fund based – Cash credit	Long term	6.50	17-Dec-24	[ICRA]BB+ (Stable)	06-Oct-23	[ICRA]BB+ (Stable)	29-Sep-22	[ICRA]BB+ (Stable)	30-Aug-21	[ICRA]BB+ (Stable)
Unallocated	Short term	0.25	17-Dec-24	[ICRA]A4+	06-Oct-23	[ICRA]A4+	29-Sep-22	[ICRA]A4+	30-Aug-21	[ICRA]A4+

### Complexity level of the rated instruments

Instrument	Complexity Indicator
Long term – Fund based – Cash credit	Simple
Short 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	6.50	[ICRA]BB+(Stable)
NA	Unallocated	NA	NA	NA	0.25	[ICRA]A4+

Source: Company

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

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