

December 31, 2024

MYK Spinning Industries Private Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term - Term loans	9.67	10.87	[ICRA]BB+ (Stable); reaffirmed
Long-term - Cash credit	12.00	12.00	[ICRA]BB+ (Stable); reaffirmed
Short-term – Non-fund based facilities	3.00	3.00	[ICRA]A4+; reaffirmed
Long-term - Unallocated limits	1.20	0.00	-
Total	25.87	25.87	

*Instrument details are provided in Annexure-I

Rationale

The ratings reaffirmation on the bank lines of MYK Spinning Industries Private Limited (MYKSIPL) considers an expected modest improvement in operational and financial performances in FY2025, following a moderation in FY2024, supported by its established track record and experience of its promoters in the cotton spinning industry. Despite a reduction in price realisation in FY2024 due to tepid demand conditions, moderation in raw material prices and increase in yarn sales volumes, improved the operating margins to 7.8% in FY2024 from 7.2% in FY2023. The ratings also favourably factor in its moderate gearing and the financial flexibility enjoyed by the company from being a part of the Parasakti Group of companies.

The ratings, however, remain constrained by the company's moderate scale of operation, which constrains the benefits arising from the economies of scale. MYKSIPL's coverage metrics moderated with interest coverage ratio and debt service coverage ratio of 2.1 times and 1.0 times, respectively, in FY2024 compared to 3.0 times and 2.0 times, respectively, in FY2023. In FY2025, the entity plans to add a 1-MW solar power plant at a cost of Rs. 4.0 crore, which will be funded through a term loan of Rs. 3.3 crore and internal accruals. While the debt coverage indicators are likely to remain moderate in the near term, cost savings accruing from the solar plant are likely to support an improvement in its operating profitability over the medium term. Exposure to intense competition in the fragmented cotton spinning industry and low value-added nature of the product limit the pricing flexibility of all domestic cotton spinners, including MYKSIPL. Further, the margins of the players in the spinning industry are exposed to volatility in cotton and yarn prices.

The Stable outlook on the long-term rating reflects ICRA's expectations that the company is likely to improve its earnings and coverage metrics. Further, the outlook underlines ICRA's expectations 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 in the industry – MYKSIPL has a long operational track record of over two decades in the spinning industry, thus establishing relationships with customers, which lend stability to volumes, as witnessed over the years. Further, long experience of the promoters, proximity to raw material sources, diversified presence across the count ranges and cost-control measures (solar power) support earnings to an extent.

Financial risk profile characterised by moderate gearing – MYKSIPL’s financial profile is characterised by a moderate gearing, supported by its net worth and moderate dependence on external debt. Key metrics, including total debt to TNW and TOL/TNW stood at 1.2 times and 2.1 times, respectively, in FY2024 against 1.3 times and 2.0 times, respectively, in FY2023. Despite the planned debt-funded capex in FY2025, its gearing levels are likely to remain at similar levels as in FY2024, with an increase in retained earnings and repayment of term loan obligations.

Credit challenges

Relatively smaller scale of operations – MYKSIPL’s scale of operations continues to be modest, with the entity registering an operating income of Rs. 80.4 crore in FY2024. Modest scale of operations limits the economies of scale to an extent, constraining its business profile. Moreover, with the current capacity utilisation at around 95%, the company has limited scope for volume-based revenue growth.

Fragmented nature of industry and low value-added nature of products limit pricing flexibility – MYKSIPL faces stiff competition in the commoditised spinning industry, characterised by low product differentiation and a fragmented nature. These factors limit the company’s pricing flexibility and exert pressure on its margins. Further, the margins are impacted by the volatility in cotton and yarn prices, which are driven by the global demand-supply scenario.

Liquidity position: Adequate

The liquidity of the company is expected to remain adequate, supported by earnings from operations and available unutilised lines of credit. The average utilisation of cash credit limits stood at 78.5% of the sanctioned limit of Rs. 12 crore for the last 12 months ending November 2024. The planned capital expenditure of Rs. 4.5 crore in FY2025 is proposed to be funded through bank debt of Rs. 3.3 crore and internal accruals. Further, cash flow from its operations is likely to support its repayment obligations of Rs. 3.1 crore in FY2025 and demonstrated ability of the promoters to bring in unsecured loans, as and when needed, bode well for the liquidity of the company.

Rating sensitivities

Positive factors – ICRA could upgrade MYKSIPL’s ratings, if it is able to maintain its top line and coverage metrics and improve its liquidity position on a sustained basis. Key metrics, which could result in an upgrade of the ratings, include DSCR of more than 1.5 times on a sustained basis.

Negative factors – Pressure on the ratings could arise, if there is a sustained pressure on earnings, or if any major debt-funded capital expenditure adversely impacts the credit metrics and liquidity position of the company. Key metrics, which could result in a downgrade, include the interest coverage reducing to less than 2.4 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 the standalone financials of MYKSIPL

About the company

MYKSIPL, established in 1995, manufactures cotton yarn and markets the same in Gujarat and Maharashtra. It has an installed capacity of 31,298 spindles. The promoters of the company are Mr. P Muni Krishna (also the promoter of Parasakti Cement Industries Limited) and Mr. P. Yashwanth Krishna. The promoters have business interests in two other companies, Turbovent Industries Private Limited and Parasakti Cement Industries Limited that manufacture industrial fans and cement, respectively.

Key financial indicators (Audited)

	FY2023	FY2024
Operating income	94.6	80.4
PAT	1.0	0.2
OPBDIT/OI	7.2%	7.8%
PAT/OI	1.1%	0.2%
Total outside liabilities/Tangible net worth (times)	2.0	2.1
Total debt/OPBDIT (times)	4.5	4.5
Interest coverage (times)	3.0	2.1

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	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
Term loans	Long Term	10.87	31-Dec-2024	[ICRA]BB+ (Stable)	12-Oct-2023	[ICRA]BB+ (Stable)	01-Sep-2022	[ICRA]BB+ (Stable)	29-Jul-2021	[ICRA]BB+ (Positive)
Cash credit	Long term	12.00	31-Dec-2024	[ICRA]BB+ (Stable)	12-Oct-2023	[ICRA]BB+ (Stable)	01-Sep-2022	[ICRA]BB+ (Stable)	29-Jul-2021	[ICRA]BB+ (Positive)
Non fund based facilities	short term	3.00	31-Dec-2024	[ICRA]A4+	12-Oct-2023	[ICRA]A4+	01-Sep-2022	[ICRA]A4+	29-Jul-2021	[ICRA]A4+
Unallocated Limits	Long term	-	-	-	12-Oct-2023	[ICRA]BB+ (Stable)	01-Sep-2022	[ICRA]BB+ (Stable)	29-Jul-2021	[ICRA]BB+ (Positive)

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long term - Term loans	Simple
Long term - Cash credit	Simple
Short term - Non fund based facilities	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	Term loan	FY2020-FY2022	NA	FY2026-FY2028	10.87	[ICRA]BB+ (Stable)
NA	Cash credit	NA	NA	NA	12.00	[ICRA]BB+ (Stable)
NA	Non fund based facilities	NA	NA	NA	3.00	[ICRA]A4+

Source: Company

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

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