

January 29, 2025

Sri Dhanalakshmi Cotton & Rice Mills Pvt. Ltd.: 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 – Fund-based – Cash credit	43.50	37.90	[ICRA]A (Stable); reaffirmed and outlook revised to Stable from Negative
Short-term – Fund-based	15.00	15.00	[ICRA]A1; reaffirmed
Short-term – Non-fund Based	8.00	0.80	[ICRA]A1; reaffirmed
Long-term – Unallocated	55.34	68.14	[ICRA]A (Stable); reaffirmed and outlook revised to Stable from Negative
Total	121.84	121.84	

*Instrument details are provided in Annexure-I

Rationale

The revision in the outlook to Stable on the long-term rating considers better-than-expected recovery in Sri Dhanalakshmi Cotton & Rice Mills Pvt. Ltd.'s (SDCRPL) margins in 9M FY2025 and expected sustenance of the same, going forward. In the last two years, the company's earnings were affected by operating losses in the spinning and oil divisions owing to decline in realisations, elevated input costs and reduced scale of operations of the oil division. In 9M FY2025, the SDCRPL's operating margin improved to ~4.9% (excluding fair value gain of Rs. 1.8 crore in 9M FY2025) from 1.9% in FY2024 on the back of improvement in realisations in oil and fabric divisions. Nevertheless, its spinning division continued to incur operating losses in 9M FY2025; ICRA expects the spinning division to achieve break-even by end of March 2025. The company's fabric division recorded a healthy revenue growth of 23-26% (annualised) in 9M FY2025. Moreover, higher generation at its captive hydel power plant, on the back of favourable monsoons, is expected to yield lower power costs, supporting its margins. Overall, while the company's revenue growth is expected to be muted, its operating margin is expected to improve to 5-8% in FY2025.

The ratings reaffirmation considers the company's low leverage and healthy coverage metrics on the back of minimal debt. Its debt protection metrics are expected to remain comfortable in the absence of any debt-funded capex plans and expected improvement in cash flows. The ratings favourably factor in extensive experience of the company in the cotton industry. Besides, operational efficiency arises from the vertically integrated nature of SDC's operations, with its presence in spinning, weaving, and oil extraction and refining, along with captive hydel power and wind generation. SDC has an established market presence in the cotton seed oil industry and is one of the largest cotton seed oil extractors in India. The ratings, however, remain constrained by the susceptibility of the company's revenues and margins to the availability and prices of cotton, which is an agricultural commodity. The company operates in a highly fragmented industry with commoditised nature of products, restricting pricing flexibility and bargaining power to an extent.

Key rating drivers and their description

Credit strengths

Extensive experience in cotton industry – The company has an established presence in the textiles and cotton seed oil industries. It is one of the largest cotton seed oil extractors in India with a 600-metric tonnes per day (MTPD) seed processing capacity, 280-MTPD solvent extraction capacity and 50-MTPD refining capacity. Moreover, SDC enjoys

established relationships with its suppliers and customers, resulting in repeat orders. SDC's spinning division (cotton yarn) has an installed capacity of 67,536 spindles, its fabric division has 120 looms, the hydel power division has a 6.2 Mega-Watt (MW) power generation capacity, its windmill has a capacity of 15.3 MW and solar power plant has a capacity of 3.02 MW.

Integrated nature of operations - The company's revenue profile is diversified with vertically-integrated operations comprising spinning, weaving, oil extraction and refining, along with captive hydel power and wind energy generation, leading to operational efficiency.

Healthy capital structure and coverage indicators - The company's capital structure and debt coverage indicators are expected to remain healthy with minimal debt levels. The overall financial profile will remain comfortable in the absence of any major debt-funded capex and limited external borrowing.

Credit challenges

Susceptibility of profitability to volatile cotton prices and captive power generation - Raw material costs are the company's major costs, accounting for close to 80-90% of its revenues over the last two years. Like other entities in the cotton industry, SDCRPL is exposed to fluctuations in cotton and yarn prices, which are driven by domestic and global factors. Firm cotton prices and pressure on realisations had constrained its contribution levels in the past. Nevertheless, the energy generated through SDCRPL's captive power plant at a cheap rate positively impacts the cost structure.

Exposed to regulatory and agroclimatic risks - The company's revenues and margins are exposed to agroclimatic risks as availability and pricing of cotton are seasonal, with the cotton season typically being from mid-September to March. SDC is also exposed to regulatory risks with respect to the minimum support price (MSP) for raw cotton, which is decided by the Government every year.

Commoditised nature of products and fragmented industry structure restrict pricing power and profitability - The spinning and knitting industries are highly fragmented with a significant share of the market occupied by unorganised players. While SDC manufactures a wide variety of products encompassing yarns with varying levels of value addition and knitted fabrics, its product portfolio continues to be concentrated towards medium-count yarns and fabrics. As a result, it enjoys limited pricing power, which is likely to keep its profitability under check.

Liquidity position: Strong

The liquidity position is strong, with unutilised working capital limits of Rs. 35.0-40.0 crore and free cash and bank balances and liquid investments of Rs.44-48.0 crore as on December 31, 2024, and expected retained cash flows of Rs. 20-25.0 crore in the next 12 months. Moreover, the company does not have any major debt-funded capex plans in the near term or any repayment obligations.

Rating sensitivities

Positive factors – ICRA could upgrade the rating if there is a significant growth in revenues and earnings while maintaining a healthy debt metrics and strong liquidity position.

Negative factors – Pressure on SDCRPL's ratings could arise if any sustained pressure on earnings or stretched working capital cycle impacts its debt profile or liquidity position. Any major debt-funded capex adversely impacting the debt protection metrics could also exert pressure on the ratings. A specific credit metric that could lead to a downgrade is if Total Debt/OPBDITA is higher than 2.0 times, on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Rating Methodology – Textiles – Spinning Rating Methodology – Textiles – Fabric Rating Methodology – Edible Oil Corporate Credit Rating Methodology
Parent/Group support	Not Applicable
Consolidation/Standalone	The ratings are based on the company's standalone financial profile.

About the company

Sri Dhanalakshmi Cotton & Rice Mills Pvt. Ltd. located in Guntur, Andhra Pradesh was set up in 1977 and is managed by Mr. N. Raghava Rao, Mr. P. Raghava Reddy, Mr. P.V. Narayana, Mr. S. Hanumantha Rao and Mr. M. Lingaiah. The company, a closely held business, operates across oil extraction, cotton spinning, weaving, hydel power wind power and solar power (all located in Guntur and nearby areas of Andhra Pradesh, a major cotton producing belt). The company also owns a 9-MW windmill in Tamil Nadu. SDC's spinning division (cotton yarn) has an installed capacity of 67,536 spindles, the cottonseed oil division has 600 MTPD of seed processing capacity, the solvent extraction division has a capacity of 280 MTPD, the refining division has a capacity of 50 MTPD, the fabric division has 120 looms, the hydel power division has a capacity of 6.2 MW, solar power has a capacity of 3.2MW and the wind mill has a capacity of 15.3 MW.

Key financial indicators (audited)

	FY2023	FY2024
Operating income	368.0	494.4
PAT	-5.3	2.9
OPBDIT/OI	-0.4%	1.9%
PAT/OI	-1.4%	0.6%
Total outside liabilities/Tangible net worth (times)	0.2	0.2
Total debt/OPBDIT (times)	-2.6	0.3
Interest coverage (times)	-10.1	36.3

Source: Company, ICRA Research; 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 (FY2025)			Chronology of rating history for the past 3 years					
	Type	Amount rated (Rs. crore)	Jan 29, 2025	FY2024		FY2023		FY2022	
				Date	Rating	Date	Rating	Date	Rating
Cash Credit	Long-term	37.90	[ICRA]A (Stable)	Jan 31, 2024	[ICRA]A (Negative)	Oct 31, 2022	[ICRA]A (Stable)	Jul 26, 2021	[ICRA]A (Stable)
Fund-based	Short-term	15.00	[ICRA]A1	Jan 31, 2024	[ICRA]A1	Oct 31, 2022	[ICRA]A1	Jul 26, 2021	[ICRA]A1
Non-fund based	Short-term	0.80	[ICRA]A1	Jan 31, 2024	[ICRA]A1	Oct 31, 2022	[ICRA]A1	Jul 26, 2021	[ICRA]A1
Unallocated	Long-term	68.14	[ICRA]A (Stable)	Jan 31, 2024	[ICRA]A (Negative)	Oct 31, 2022	[ICRA]A (Stable)	Jul 26, 2021	[ICRA]A (Stable)
Term loans	Long-term	-	-	-	-	-	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term – Fund-based/ CC	Simple
Short-term – Fund-based	Very Simple
Short-term – Non-fund Based	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	37.90	[ICRA]A (Stable)
NA	Short Term Loan	NA	NA	NA	15.00	[ICRA]A1
NA	Letter of Credit/ Bank Guarantee	NA	NA	NA	0.80	[ICRA]A1
NA	Unallocated	NA	NA	NA	68.14	[ICRA]A (Stable)

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

ANALYST CONTACTS

Shamsher Dewan

+91 12 4454 5300

shamsherd@icraindia.com

Srikumar K

+91 44 4596 4318

ksrikumar@icraindia.com

Nithya Debbadi

+91 40 6939 6416

nithya.debbadi@icraindia.com

Etikala Raviteja

+91 40 6939 6418

etikala.teja@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar

+91 22 6114 3406

shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani

Tel: +91 124 4545 860

communications@icraindia.com

HELPLINE FOR BUSINESS QUERIES

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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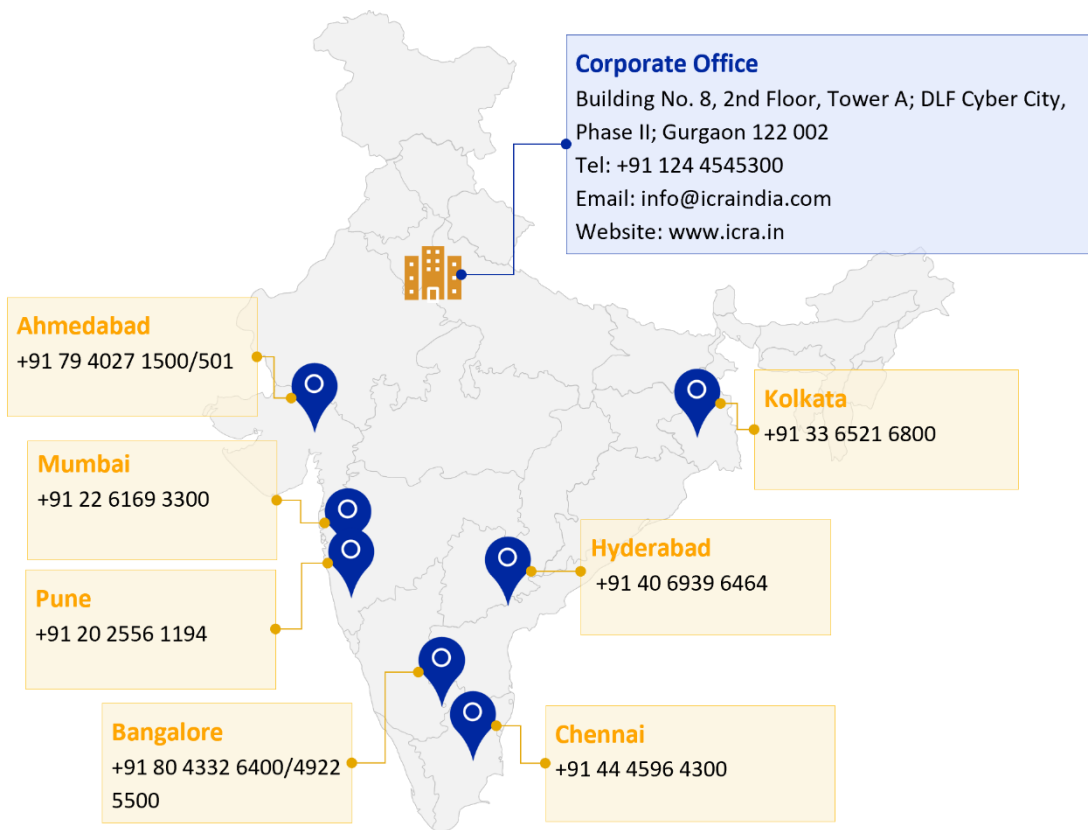
Registered Office

B-710, Statesman House, 148 Barakhamba Road, New Delhi-110001

Tel: +91 11 23357940-45



Branches



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