

February 04, 2025

Sri Sankari Yarns 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	20.00	20.00	[ICRA]BBB+ (Stable); reaffirmed
Long Term – Fund Based – Overdraft	0.15	0.15	[ICRA]BBB+ (Stable); reaffirmed
Long Term – Fund Based – Term Loan	9.29	6.38	[ICRA]BBB+ (Stable); reaffirmed
Short Term – Non-fund Based Limits	0.70	0.70	[ICRA]A2; reaffirmed
Short Term – Unallocated Limits	34.86	37.77	[ICRA]A2; reaffirmed
Total	65.00	65.00	

*Instrument details are provided in Annexure I

Rationale

The ratings reaffirmation on the bank lines of Sri Sankari Yarns Private Limited (SSYPL) considers an expected modest recovery in operational and financial performances over the medium term, supported by its established presence in the yarn market of Tamil Nadu and the extensive experience of the promoters. The ratings continue to remain supported by SSYPL's conservative capital structure and healthy coverage indicators. In FY2024, while revenues grew by 6.3% to Rs. 181.6 crore, operating margins weakened by 590 bps (on a YoY basis) to 2.8% due to weak demand for rotor spun yarn, resulting in lower realisation. In H1 FY2025, despite revenues declining by 11.8% (on an annualised basis) due to moderation in realisation and decline in traded volumes, operating margins improved by 460 bps to 7.4%, with reduction in raw material prices. Despite moderation in profitability in FY2024, due to lower dependence on bank borrowings, coverage indicators remained healthy with an interest cover and debt service coverage ratio of 4.8 times and 1.4 times, respectively. Besides, with an increase in profitability in H1 FY2025, interest cover and debt service coverage ratio improved to 16.7 times and 3.3 times, respectively. Operating margins and coverage indicators are likely to remain healthy over the medium term, supported by an increase in contribution levels and a modest recovery in volumes.

The ratings, however, remain constrained by the commoditised nature of the company's products, which, coupled with the fragmented industry structure, result in limited pricing power, keeping the profitability under check. Further, the ratings factor in the high working capital intensity of SSYPL's operations due to the seasonal nature of raw material availability. Also, the company's profitability remains vulnerable to volatility in cotton prices.

The Stable outlook on the long-term rating factors in ICRA's expectations that the revenues and earnings of the company are likely to improve over the medium term with recovery demand from downstream companies. Further, the outlook underlines ICRA's expectations that the incremental capex, if any, will be funded in a manner that it is able to durably maintain its debt protection metrics commensurate with the existing rating.

Key rating drivers and their description

Credit strengths

Established presence in spinning industry with extensive experience of its promoters – SSYPL is among the major suppliers of coarse-count yarn in the home textile weaving market of Tamil Nadu. The promoters have been involved in the textile industry for more than two decades, with SSYPL enjoying linkages with some of the companies in the erstwhile SSM Group (procures cotton waste from the Group to meet a portion of its raw material requirements). With a stable customer base and a consistent demand for coarser counts, SSYPL has been able to sustain its volumes over the years.

Comfortable financial profile as characterised by conservative capital structure and adequate debt protection metrics – The company's capital structure remains conservative, supported by a strong net worth base, reflected in Total Debt/Tangible Net Worth of 0.2 times and Total Outside Liabilities/ Tangible Net Worth of 0.3 times as on September 30, 2024. The company's revenue de-grew by 11.8% (on an annualised basis) to Rs. 80.1 crore in H1 FY2025 from Rs. 181.7 crore in FY2024. At an absolute level, the company's OPBDITA increased to Rs. 5.9 crore in H1 FY2025 from Rs. 5.1 crore in FY2024, on the back of an improvement in margins (OPM stood at 7.4% in H1 FY2025 against 2.8% in FY2024). This led to an improvement in return metrics and coverage indicators. The RoCE improved to 2.8% in H1 FY2025 from 0.3% in FY2024. The interest coverage and debt service coverage ratio improved to 16.7 times and 3.3 times in H1 FY2025, respectively, from 4.8 times and 1.4 times, respectively, in FY2024. Going forward, the company's leverage and coverage indicators are likely to remain comfortable, supported by an increase in contribution levels and no major debt-funded expansions planned by the entity.

Credit challenges

Working capital-intensive operations; susceptible to volatility in cotton and cotton yarn prices – Like other entities in the spinning sector, SSYPL stocks cotton fibre during the harvest season from October to March. This practice exposes it to fluctuations in cotton and, hence, cotton yarn prices during the non-harvest period as the procurement cost for SSYPL becomes fixed. This also results in a high inventory position for the company, particularly during the peak season. Besides high receivables position, this results in high working capital intensity for the company, as indicated by the Net Working Capital/ Operating Income (NWC/OI) of ~28% in FY2024.

Commoditised nature of yarn and fragmented industry structure keep profitability under check – The spinning industry is highly fragmented with a significant share of the unorganised segment. The company's product portfolio continues to be concentrated towards 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

SSYPL's liquidity position is expected to remain adequate, supported by steady earnings from operations and adequate unutilised lines of credit. The average utilisation of its fund-based limits over the last 12 months ending in December 2024 stood at 16% and the company's working capital limits of Rs. 20.0 crore remain unutilised for most of the months. The company has no major debt-funded capital expansion planned over the medium term and its annual debt repayment obligations stand at Rs. 2.7 crore for FY2025 and Rs. 2.4 crore for FY2026.

Rating sensitivities

Positive factors – The ratings could be upgraded, if there is a healthy and sustained increase in the company's scale of operations and profits, while maintaining comfortable liquidity profile and debt protection metrics.

Negative factors – The ratings could be downgraded, if there is a sustained pressure on the company's operating performance or any large debt-funded capex, which would adversely impact the liquidity and debt protection metrics. Specific credit metrics that could trigger ratings downgrade include Total Debt/ OPBITDA exceeding 2.6 times on a sustained basis.

Analytical approach

Analytical approach	Comments
Applicable rating methodologies 9 Bold	Corporate Credit Rating Methodology Textiles - Spinning
Parent/Group support	Not applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the standalone financials of SSYPL.

About the company

SSYPL, incorporated in May 2007 and promoted by Mr. S.M.K. Sudhan, operates a spinning mill at Dindigul district in Tamil Nadu with a capacity of around 4,848 rotors. It manufactures open-ended (OE) yarn, primarily from waste cotton obtained from other spinning mills in the region. SSYPL produces OE yarn in the count range between 2s and 26s, which are used in manufacturing home furnishing products. The major portion of sales is made to the weaving units within Tamil Nadu. The company also has a total installed captive power generation capacity of 8.175 MW (5.1-MW wind power and 3.075-MW solar power)

Key financial indicators (audited)

SSYPL	FY2023	FY2024	H1 FY2025*
Operating income	170.9	181.7	80.1
PAT	4.6	(1.0)	0.3
OPBDIT/OI	8.7%	2.8%	7.4%
PAT/OI	2.7%	(0.5%)	0.3%
Total outside liabilities/Tangible net worth (times)	0.3	0.2	0.3
Total debt/OPBDIT (times)	1.5	1.6	1.4
Interest coverage (times)	9.8	4.8	16.7

Source: Company, ICRA Research; All ratios as per ICRA's calculations; *provisional number; 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 rating (FY2025)			Chronology of rating history for the past 3 years		
	Type	Amount rated (Rs. crore)	Feb 04, 2025	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022
				Nov 23, 2023	Jan 27, 2023	Nov 25, 2021
1 Cash Credit	Long Term	20.00	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)
2 Overdraft	Long Term	0.15	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	-
3 Term loan	Long Term	6.38	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)

4	Non-fund based	Short Term	0.70	[ICRA]A2	[ICRA]A2	[ICRA]A2	[ICRA]A2
5	Unallocated Limits	Short-term	37.77	[ICRA]A2	[ICRA]A2	--	--

Complexity level of the rated instruments

Instrument	Complexity indicator
Long Term-Fund Based-Cash Credit	Simple
Long Term-Fund Based-Overdraft	Simple
Long Term-Fund Based-Term Loan	Simple
Short Term – Non-fund Based Limits	Very Simple
Short Term – Unallocated Limits	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	20.00	[ICRA]BBB+ (Stable)
NA	Overdraft	NA	NA	NA	0.15	[ICRA]BBB+ (Stable)
NA	Term Loan	FY2020	NA	FY2028	6.38	[ICRA]BBB+ (Stable)
NA	Non-fund based	NA	NA	NA	0.70	[ICRA]A2
NA	Unallocated limits	NA	NA	NA	37.77	[ICRA]A2

Source: Company

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

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