

February 04, 2025

## Sri Matha 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 term Loans	32.66	24.37	[ICRA]BBB+ (Stable); reaffirmed
Long-term fund-based working capital facilities	55.15	75.25	[ICRA]BBB+ (Stable); reaffirmed
Short-term non-fund based-Working capital facilities	20.00	21.50	[ICRA]A2; reaffirmed
Long-term/short-term unallocated	17.19	3.88	[ICRA]BBB+ (Stable)/ [ICRA]A2; reaffirmed
<b>Total</b>	<b>125.00</b>	<b>125.00</b>	

\*Instrument details are provided in Annexure I

### Rationale

The ratings reaffirmation on the bank lines of Sri Matha Spinning Mills Private Limited (SMSMPL) considers an expected modest improvement in operational and financial performances over the medium term, supported by a moderate recovery in profitability seen in H1 FY2025, experience of its promoters in the cotton spinning industry and its conservative capital structure. While revenues declined by ~3% in FY2024 to Rs. 379.0 crore (on a YoY basis), on the back of a ~19% fall in yarn realisation, increase in yarn volumes sold toward covering the fixed overheads had supported an improvement in operating margins by 100 bps to 2.9% in FY2024. In H1 FY2025, while revenue growth remained flat, decline in cotton fibre prices and other overheads had supported an improvement in operating margins by 330 bps to 6.2% and is likely to remain healthy for the remainder of FY2025. Besides, the increase in profit margins supported the coverage indicators with interest coverage and debt service coverage ratio improving to 3.8 times and 1.5 times in H1 FY2025, respectively, from 2.0 times and 0.9 times, respectively, in FY2024. Going forward, the coverage metrics are likely to remain healthy, supported by an improvement in profitability and no major debt-funded capital expansion planned by the entity.

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 profitability under check. Further, the ratings factor in the high working capital intensity of SMSMPL's operations due to the seasonal nature of cotton availability that requires stocking during the harvest season, keeping the profitability 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 a 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 track record and experience of promoters in cotton spinning industry** – SMSMPL has an established track record of more than two decades in the cotton spinning business. Further, SMSPL continues to enjoy operational synergies of being part of the erstwhile SSM Group, which supports it in maintaining healthy relationships with its customers in the medium and

coarser count yarn market in Tamil Nadu. The entity has an installed capacity of 75,360 spindles and 25.4-MW power capacity, meeting ~90% of its captive power requirements.

**Comfortable capital structure** – SMSMPL’s capital structure remains conservative, as reflected in Total Debt/Tangible Net Worth of 0.2 times and Total Outside Liabilities/Tangible Net Worth of 0.3 times as on March 31, 2024, aided by the strong net worth base built over the years. The capital structure is likely to remain comfortable over the medium term, supported by no major debt-funded capital expansions planned by the entity and healthy increase in retained earning with improvement in profitability. 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, SMSMPL stocks cotton during the harvest season from October to March. This practice exposes it to the fluctuations in cotton prices and, hence, cotton yarn prices during the non-harvest period as the procurement cost for SMSMPL 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 of ~30% in FY2024.

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

SMSMPL’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 58% of the sanctioned Rs. 55 crore and the limits were further enhanced by Rs. 20 crore to Rs. 75 crore in January 2025. SMSMPL does not have any major debt-fund capex planned over the medium term and has repayment obligations of Rs. 9.5 crore in FY2025.

## Rating sensitivities

**Positive factors** – The ratings can be upgraded, if there is a healthy and sustained increase in the profitability with improvement in liquidity profile and debt protection metrics. Specific metrics that could lead to an upgrade include an interest coverage of more than 4.5 times on a sustained basis.

**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 2.5 times on a sustained basis.

## Analytical approach

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

## About the company

Sri Matha Spinning Mills Private Limited, established in 1999, operates with an installed capacity of 75,360 spindles. Located in Dindigul, Tamil Nadu, SMSMPL produces cotton yarn in counts ranging from 16s to 44s, with the major counts being 25s, 30s and 34s. SMSMPL sells its produce mainly to the domestic customers. Over the years, SMSMPL has invested heavily in windmills with total installed capacity of 18.65 MW and solar power plant with an installed capacity of 6.75 MW.

### Key financial indicators (audited)

Standalone	FY2023	FY2024	H1FY2025*
Operating income	389.3	379.0	179.4
PAT	(4.0)	(3.3)	0.5
OPBDIT/OI	1.9%	2.9%	6.2%
PAT/OI	(1.0%)	(0.9%)	0.3%
Total outside liabilities/Tangible net worth (times)	0.4	0.3	0.3
Total debt/OPBDIT (times)	10.9	4.7	3.0
Interest coverage (times)	1.4	2.0	3.8

Source: Company, ICRA Research; \* Provisional number; 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

Current (FY2025)					Chronology of rating history for the past 3 years					
FY2025					FY2024		FY2023		FY2022	
Instrument	Type	Amount rated (Rs. crore)	Date	Rating	Date	Rating	Date	Rating	Date	Rating
Term loans	Long-term	24.37	04-Feb-25	[ICRA]BBB+ (Stable)	23-Nov-23	[ICRA]BBB+ (Stable)	01-Nov-22	[ICRA]A- (Stable)	24-Sep-21	[ICRA]A- (Stable)
Cash credit	Long-term	75.25	04-Feb-25	[ICRA]BBB+ (Stable)	23-Nov-23	[ICRA]BBB+ (Stable)	01-Nov-22	[ICRA]A- (Stable)	24-Sep-21	[ICRA]A- (Stable)
Non-fund-based working capital facilities	Short-term	21.50	04-Feb-25	[ICRA]A2	23-Nov-23	[ICRA]A2	01-Nov-22	[ICRA]A2+	24-Sep-21	[ICRA]A2+
Unallocated limits	Long-term/short-term	3.88	04-Feb-25	[ICRA]BBB+ (Stable)/[ICRA]A2	23-Nov-23	[ICRA]BBB+ (Stable)/[ICRA]A2	01-Nov-22	[ICRA]A- (Stable)/[ICRA]A2+	24-Sep-21	[ICRA]A- (Stable)/[ICRA]A2+

## Complexity level of the rated instruments

Instrument	Complexity indicator
Long-term fund- based term Loans	Simple
Long-term fund- based Working Capital Facilities	Simple
Short-term non-fund based-Working Capital Facilities	Very Simple
Long-term/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	Term loan-I	Feb 2022	NA	Jan 2027	9.93	[ICRA]BBB+ (Stable)
NA	Term loan-II	Mar 2022	NA	Oct 2027	14.44	[ICRA]BBB+ (Stable)
NA	Cash Credit	NA	NA	NA	75.25	[ICRA]BBB+ (Stable)
NA	Non fund based working capital facilities	NA	NA	NA	21.50	[ICRA]A2
NA	Unallocated limits	NA	NA	NA	3.88	[ICRA]BBB+ (Stable)/ [ICRA]A2

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**  
+91 124 4545328  
[shamsherd@icraindia.com](mailto:shamsherd@icraindia.com)

**Srikumar K**  
+91 44 4596 4318  
[ksrikumar@icraindia.com](mailto:ksrikumar@icraindia.com)

**Ramakrishnan G S**  
+91 44 4596 4300  
[g.ramakrishnan@icraindia.com](mailto:g.ramakrishnan@icraindia.com)

**Akkash**  
+91 9080538266  
[akkash@icraindia.com](mailto:akkash@icraindia.com)

## RELATIONSHIP CONTACT

**L. Shivakumar**  
+91 22 6114 3406  
[shivakumar@icraindia.com](mailto:shivakumar@icraindia.com)

## MEDIA AND PUBLIC RELATIONS CONTACT

**Ms. Naznin Prodhani**  
Tel: +91 124 4545 860  
[communications@icraindia.com](mailto:communications@icraindia.com)

## HELPLINE FOR BUSINESS QUERIES

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)  
[info@icraindia.com](mailto:info@icraindia.com)

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## ICRA Limited



### Registered Office

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

Tel: +91 11 23357940-45



### Branches



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