April 04, 2025

Vedha Spinning Mills Private Limited: Ratings upgraded to [ICRA]BBB- (Stable)/ [ICRA]A3

Summary of rating action

Instrument*	Previous rated amount (Rs. crore)	Current rated amount (Rs. crore)	Rating action
Long-term – Fund based – Term loans	5.71	4.47	[ICRA]BBB- (Stable); upgraded from [ICRA]BB+ (Stable)
Long-term – Fund based – Cash credit	75.00	75.00	[ICRA]BBB- (Stable); upgraded from [ICRA]BB+ (Stable)
Short-term – Non-fund based – Working capital facilities	10.00	10.00	[ICRA]A3; upgraded from [ICRA]A4+
Long-term/Short-term – Unallocated	59.29	60.53	[ICRA]BBB- (Stable)/ [ICRA]A3; upgraded from [ICRA]BB+ (Stable)/ [ICRA]A4+
Total	**150.00**	**150.00**	

**Instrument details are provided in Annexure I*

Rationale

The ratings upgrade on the bank lines of Vedha Spinning Mills Private Limited (VSMPL) considers a recovery in performance in 9M FY2025 and an expected modest improvement in operational and financial performances over the medium term, supported by the experience of its promoters in the cotton spinning industry and its conservative capital structure. While revenue de-grew by ~8.4% in FY2024 to Rs. 284.6 crores due to moderation in realisation because of a weak demand environment, it improved in 9M FY2025 by 21.8% (on an annualised basis) to Rs. 260 crore and is likely to remain healthy.

The operating margins improved by 360 bps on a YoY basis to 5.7% in 9M FY2025, supported by moderation in raw material prices and reduction in other overheads. An Increase in profitability has improved the coverage indicators, with interest coverage and debt service coverage ratios improving to 3.3 times and 3.3 times, respectively, in 9M FY2025, from 1.0 times and 0.1 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 are, however, 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 in VSMPL'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 in the near to 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

Operational synergies from being part of SSM Group – VSMPL continues to enjoy operational synergies of being part of the erstwhile SSM Group, which supports it in maintaining healthy relationships with its customers and an established position in the coarser count yarn market in Tamil Nadu. The entity has an installed capacity of 68,016 spindles and 15.6-MW power capacity, meeting 50-60% of its captive power requirements.

Comfortable financial profile – VSMPL's financial performance moderated in FY2024 due to weaker realisations caused by unfavourable demand conditions and volatility in cotton prices. While its revenues fell by 8.4% in FY2024, it recovered subsequently by 21.8% (on an annualised basis) in 9M FY2025, owing to recovery in realisation and volumes. Besides, its operating margin improved by 360 bps on a YoY basis to 5.7% in 9M FY2025, due to an increase in contribution and a reduction in employee costs and other overheads. VSMPL's capital structure remains conservative, as reflected in Total Debt/Tangible Net Worth of 0.4 times and Total Outside Liabilities/Tangible Net Worth of 0.7 times as on March 31, 2024, aided by the strong net worth base. The interest coverage and debt service coverage ratio improved to 3.3 times and 3.3 times, respectively, in 9M FY2025, compared to 1.0 times and 0.1 times, respectively, in FY2024.

Credit challenges

Working capital-intensive operations; susceptibility to volatility in cotton and cotton yarn prices – Like other entities in the spinning sector, VSMPL stocks cotton during the harvest season. Though this practice has moderated over the last two fiscals owing to high volatility observed in cotton prices, entities, including VSMPL, continue to stock certain stock during the harvest season. As a result, the company remains exposed to the fluctuations in cotton and, hence, cotton yarn prices during the non-harvest period as the procurement cost becomes fixed. This also results in a high inventory position for the company, particularly during the peak season. Besides the high receivables position, this results in high working capital intensity for the company, as indicated by the Net Working Capital/ Operating Income of 35% in FY2024 and is likely to remain elevated over the medium term, with dues recoverable from its related entities.

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, its pricing power is limited, which is likely to keep profitability under check.

Liquidity position: Adequate

VSMPL'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 February 2025 stood at 63% of the sanctioned Rs. 75 crore. VSMPL does not have any major debt-funded capex planned over the medium term and has repayment obligations of Rs. 1.5 crore in FY2025.

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 – ICRA may downgrade the ratings, if there is any sustained pressure on the company's operating performance or any significant debt-funded capex, which would adversely impact its debt protection metrics and liquidity position. Specific credit metrics which may result in a downward rating action include interest coverage ratio remaining below 2.8 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 financial profile of the company.

About the company

Incorporated in January 2002, Vedha Spinning Mills Private Limited (VSMPL) was one of the least revenue generating companies of the erstwhile Shanmugavel Group. The company had a capacity of 58,000 spindles, which was reduced to 48,336 during a business restructuring due to family division. Following the same, the entity added 19,680 spindles, and its current capacity stands at 68,016 spindles with its facility located at Dindigul, Tamil Nadu. The company produces cotton yarn (ring spinning), with primary focus on the count range of 30s and has an installed windmill capacity of 15.6 MW (prior to restructure capacity - 11 MW).

Key financial indicators (audited)

VSML Standalone	FY2023	FY2024	9M FY2025*
Operating income	310.8	284.6	260.1
PAT	5.0	-10.4	8.7
OPBDIT/OI	6.4%	2.1%	5.7%
PAT/OI	1.6%	-3.6%	3.3%
Total outside liabilities/Tangible net worth (times)	0.5	0.7	0.7
Total debt/OPBDIT (times)	2.7	10.9	3.2
Interest coverage (times)	4.7	1.0	3.3

*Source: Company, ICRA Research; * Provisional numbers; 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 (FY2026)			Chronology of rating history for the past 3 years					
			FY2026		FY2025		FY2024		FY2023	
Instrument	Type	Amount rated (Rs. crore)	Date	Rating	Date	Rating	Date	Rating	Date	Rating
Term loan	Long-term	4.47	Apr-04-2025	[ICRA]BBB-(Stable)	Apr-2-2024	[ICRA]BB+ (Stable)	Dec-14-2023	[ICRA]BBB (Stable) ISSUER NOT COOPERATING	Oct-31-2022	[ICRA]BBB(Stable)
Cash credit	Long-term	75.00	Apr-04-2025	[ICRA]BBB-(Stable)	Apr-2-2024	[ICRA]BB+ (Stable)	Dec-14-2023	[ICRA]BBB (Stable) ISSUER NOT COOPERATING	Oct-31-2022	[ICRA]BBB(Stable)
Non-fund based facility	Short-term	10.00	Apr-04-2025	[ICRA]A3	Apr-2-2024	[ICRA]A4+	Dec-14-2023	[ICRA]A3+ ISSUER NOT COOPERATING	Oct-31-2022	[ICRA]A3+
Unallocated facility	Long-term/ Short-term	60.53	Apr-04-2025	[ICRA]BBB-(Stable) /[ICRA]A3	Apr-2-2024	[ICRA]BB+ (Stable)/ [ICRA]A4+	Dec-14-2023	[ICRA]BBB (Stable)/ [ICRA]A3+ ISSUER NOT COOPERATING	Oct-31-2022	[ICRA]BBB(Stable)/ [ICRA]A3+

Complexity level of the rated instruments

Instrument	Complexity indicator
Long-term – Fund-based – Term Loan	Simple
Long-term – Fund Based – Cash Credit	Simple
Short Term – Non-Fund Based – Working Capital facilities	Very Simple
Long Term /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	Term Loan	FY2021	NA	FY2028	4.47	[ICRA]BBB- (Stable)
NA	Cash Credit	NA	NA	NA	75.00	[ICRA]BBB- (Stable)
NA	Non-Fund Based	NA	NA	NA	10.00	[ICRA]A3
NA	Unallocated Limits	NA	NA	NA	60.53	[ICRA]BBB- (Stable)/ [ICRA]A3

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

Srikumar Krishnamurthy
+91 44 4596 4318
ksrikumar@icraindia.com

Ramakrishnan G S
+91 44 4596 4300
.ramakrishnan@icraindia.com

Akkash R
+91 44 4596 4319
akkash@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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For more information, visit www.icra.in

ICRA Limited

Registered Office

B-710, Statesman House, 148 Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches