Sri Matha Spinning Mills Private Limited: Ratings downgraded to [ICRA]BBB+(Stable)/[ICRA]A2

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based Term Loans	38.01	32.66	[ICRA]BBB+ (Stable); downgraded from [ICRA]A- (Stable)
Long-term Fund-based Cash Credit	55.15	55.15	[ICRA]BBB+ (Stable); downgraded from [ICRA]A- (Stable)
Short-term Non-fund based – Working capital facilities	30.00	20.00	[ICRA]A2; downgraded from [ICRA]A2+
Long-term/Short-term Unallocated	1.84	17.19	[ICRA]BBB+ (Stable)/ [ICRA]A2; downgraded from [ICRA]A- (Stable)/ [ICRA]A2+
Total	**125.00**	**125.00**	

Instrument details are provided in Annexure-I

Rationale

The ratings downgrade considers weaker than expected performance of Sri Matha Spinning Mills Private Limited (SMSMPL / the company) in FY2023 amid unfavorable demand conditions and volatility in cotton fibre prices. The company's revenues declined by ~10% in FY2023 on the back of a ~18% fall in volumes amid a weak demand scenario. While yarn realisations improved by ~9%, cotton fibre prices witnessed a steeper rise, resulting in lower contribution levels. The operating margins contracted by 2% in FY2023 against ~18% in FY2022. The coverage indicators deteriorated on the back of a decline in profitability. The interest coverage and DSCR declined to 1.4 times and 0.7 times in FY2023, respectively, from 20.5 times and 6.5 times in FY2022, respectively. The company is expected to register a marginal revenue growth in FY2024, driven by improvement in volumes. The margins are also likely to improve to some extent, aided by softening of raw material costs. The coverage metrics are likely to improve with the expected recovery in profitability. Nonetheless, the coverage metrics are likely to remain lower than the levels witnessed in FY2022.

The ratings are 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 ratings, however, continue to be supported by SMSMPL's conservative capital structure. The ratings also factor in the operational synergies enjoyed by the company for being a part of the SSM Group.

The Stable outlook on the long-term rating reflects ICRA's opinion that a recovery in demand from H2 FY2024 would help improve the company's their revenues and profitability. Besides, relatively lower debt levels are expected to translate into adequate debt protections metrics for the company.

Key rating drivers and their description

Credit strengths

Operational synergies for being a part of the SSM Group – SMSMPL enjoys operational synergies for being a part of a larger group. The SSM Group is among the largest textile groups in South India, with sizeable capacities in the spinning and fabric

segments. The SSM Group is one of the leading suppliers of medium and coarser count hosiery yarn market in Tamil Nadu (which includes the large hosiery hub in Tirupur) and enjoys an established presence across other key domestic and export markets.

Comfortable capital structure – SMSMPL'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 0.4 times as on March 31, 2023, aided by the strong net worth base built over the years. The capital structure is expected to remain comfortable, going forward. While the coverage metrics deteriorated in FY2023 on the back of a decline in profitability, the same is expected to improve to some extent in the current fiscal with the likely recovery in profitability.

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 ~38% in FY2023 (P).

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 period ending in September 2023 stood at a comfortable 32%. The company had a buffer of ~Rs. 35 crore in its working capital limits as on September 2023. Moreover, absence of major capex plans is also expected to support the liquidity. The repayment obligations stand at Rs. 5.7 crore in FY2024 and 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 for Entities in the Indian textiles Industry- Spinning
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the standalone financials of SMSMPL

About the company

Established in 1999, Sri Matha Spinning Mills Private Limited operates with an installed capacity of 75,360 spindles. Located in Dindigul, Tamil Nadu, SMSMPL produces cotton yarn in the 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 and it has a total installed capacity of 18.65 MW. In FY2023, SMSMPL added another solar power plant with an installed capacity of 6 MW.

Key financial indicators

SMSMPL	FY2022 Audited	FY2023 (Provisional)
Operating income	433.6	389.3
PAT	46.0	-4.1
OPBDIT/OI	17.9%	2.0%
PAT/OI	10.6%	-1.0%
Total outside liabilities/Tangible net worth (times)	0.4	0.4
Total debt/OPBDIT (times)	0.8	10.8
Interest coverage (times)	20.5	1.4

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Type	Current rating (FY2024)		Chronology of rating history for the past 3 years				
			Amount rated (Rs. crore)	Amount outstanding as of Oct 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	
					Nov 23, 2023	Nov 01, 2022	Sep 24, 2021	Sep 28, 2020	May 04, 2020
1	Term loans	Long term	32.66	32.66	[ICRA]BBB+ (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A-@	-
2	Cash Credit	Long term	55.15	--	[ICRA]BBB+ (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A-@	[ICRA]A-@
3	Non fund-based working capital facilities	Short term	20.00	--	[ICRA]A2	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+@	[ICRA]A2+@
4	Unallocated Limits	Long term and short term	17.19	--	[ICRA]BBB+ (Stable) /[ICRA]A2	[ICRA]A- (Stable) /[ICRA]A2+	[ICRA]A- (Stable) /[ICRA]A2+	[ICRA]A-@ /[ICRA]A2+@	[ICRA]A-@ /[ICRA]A2+@

@= Under Watch with Negative Implications

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	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 I	Feb 2022	NA	Jan 2027	13.27	[ICRA]BBB+ (Stable)
NA	Term Loan II	Mar 2022	NA	Oct 2027	19.39	[ICRA]BBB+ (Stable)
NA	Cash Credit	NA	NA	NA	55.15	[ICRA]BBB+ (Stable)
NA	Non fund-based working capital facilities	NA	NA	NA	20.00	[ICRA]A2
NA	Unallocated Limits	NA	NA	NA	17.19	[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

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About ICRA Limited:

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