

June 24, 2022

## Suryalakshmi Cotton Mills Limited: Ratings upgraded

### Summary of rating action

| Instrument*                                    | Previous Rated Amount<br>(Rs. crore) | Current Rated Amount<br>(Rs. crore) | Rating Action                                                          |
|------------------------------------------------|--------------------------------------|-------------------------------------|------------------------------------------------------------------------|
| Long-term - Fund Based/ Cash Credit            | 149.50                               | 149.50                              | [ICRA]BBB(Stable); upgraded from [ICRA]BBB-(Stable)                    |
| Long-term - Fund based - Term Loan             | 85.88                                | 64.73                               | [ICRA]BBB(Stable); upgraded from [ICRA]BBB-(Stable)                    |
| Short-term - Non-fund-based                    | 53.00                                | 53.00                               | [ICRA]A3+; upgraded from [ICRA]A3                                      |
| Long Term / Short Term- Unallocated facilities | 129.37                               | 150.52                              | [ICRA]BBB(Stable)/[ICRA]A3+; upgraded from [ICRA]BBB-(Stable)/[ICRA]A3 |
| <b>Total</b>                                   | <b>417.75</b>                        | <b>417.75</b>                       |                                                                        |

\*Instrument details are provided in Annexure-1

### Rationale

The ratings upgrade reflects the better-than-expected performance of Suryalakshmi Cotton Mills Limited (SCML) in the recent quarters, and the anticipated steady operational and financial performances over the medium term. SCML's revenues and earnings continued to improve in the second half of FY2022, backed by its established presence and favourable demand conditions, especially in the synthetic yarn segment. The same follows the improvement in performance witnessed in H2 FY2021 and the beginning of the last fiscal, post the deterioration in the operating performance seen in FY2020 and H1 FY2021 because of the pandemic-induced demand disruptions. SCML registered a healthy revenue growth of 60% in FY2022 and is likely to witness a further growth of more than 20% in FY2023, backed by the relatively stable demand and firm prices witnessed in the synthetic yarn and denim segments. Backed by a healthy growth in realisations, the operating margins also improved to 10% in FY2022. Despite the expected moderation in the contribution levels given the firm raw material prices across product segments, SCML's performance over the next 12 to 18 months is expected to be supported by the growth in revenues and consequent economies of scale. Further, the growth in capacity utilisation and scale of operations in the denim segment would also aid the overall performance of the company. Thus, the operating margins are likely to moderate by around only 200 bps in the current fiscal against the contribution margins, which are expected to witness a steeper decline of more than 400 bps.

In addition to the growth in earnings, SCML's debt protection metrics have also been supported by the lower repayment obligations and reduction in interest rates, as part of the revised sanctions upon implementation of the one-time Covid-19-related debt restructuring in Q1 FY2022. The key coverage metrics including interest coverage and debt service coverage ratios (DSCR) improved to around 3.3 times and 2.2 times, respectively, in FY2022 against the modest levels witnessed in the preceding fiscals. Nevertheless, SCML's leverage indicators and return indicators remain at moderate levels, given the high working capital requirements and losses incurred in the past, with total debt to operating profits (TD/OPBDITA) of around 3.4 times and the return on capital employed (ROCE) of ~7% for FY2022. While the operating profits could be under pressure given the high raw material costs, the debt protection metrics are expected to be supported by the reduction in debt levels in FY2023. The company is expected to realise around Rs. 30 crore from sale of machinery in Q2 FY2023 (related to the thermal power plant), which would be utilised towards prepayment of debt in addition to the scheduled repayments. The process was initiated in Q4 FY2022, with the net losses for the quarter being on account of the provision towards the non-realizable portion of the assets being disposed. The company's key credit metrics including interest cover, DSCR and TD/OPBDITA are likely to be at

around 3.2, 2.2 and 3.1 times, respectively, in FY2023 and improve further to 4.1, 2.5 and 2.4 times, respectively, in FY2024 (with the expected growth in operating profits).

The ratings also factor in SCML's established market position in the denim and yarn segments, backed by the promoters' long industry experience, a diversified product portfolio across segments and the integrated nature of operations. Further, the ratings consider the working capital-intensive nature of operations and exposure of earnings to volatile raw material prices with intense competition limiting pricing flexibility of industry players. ICRA also notes that post the allegations made against the company in December 2019 with respect to the procurement of coal from Western Coalfield Limited and the subsequent CBI investigation, there have been no further updates on the issue. ICRA will continue to monitor if any adverse developments arise from the same, which could have a negative impact on the credit profile of the company and take appropriate rating action when necessary.

The Stable outlook reflects ICRA's expectations that SCML's performance will continue to benefit from its established presence in the denim and synthetic yarn industry segments and long relationships with its key customers, aiding in repeat orders.

## Key rating drivers and their description

### Credit strengths

**Established market position** – SCML has an operational track record spanning over five decades in both the denim and spinning segments, with established business channels and a diversified geographical presence across the domestic and export markets. The company's diversified business and geographical presence have helped buffer the impact of any demand slowdown and business disruptions on account of the pandemic in the overall revenues and earnings. Further, SCML has strengthened its product profile within the denim fabric and yarn segments, which has supported volumes.

**Integrated nature of operations with improvement in operating performance witnessed in recent quarters** – SCML's operations are integrated across the spinning and weaving segments, with the overall value addition supported by a specialty yarn manufacturing unit established for captive consumption at its weaving facility. This diversified product mix supports the operating performance of the company to an extent and limits the impact of slowdown in any one segment on the overall earnings, as seen over the years. Consequently, SCML's revenues and earnings have witnessed a healthy growth in FY2022, on the back of favourable demand conditions in both the synthetic yarn and denim segments after the impact of the second wave in Q1 FY2022.

### Credit challenges

**Moderate financial profile** - SCML's financial profile is characterised by moderate leverage indicators due to the high working capital requirements in the business and losses/modest earnings witnessed in the recent fiscals. However, the debt protection metrics have improved in FY2022 on the back of improvement in operating profits, favourable repayment schedule and reduction in interest rates, post the implementation of the debt restructure plan in Q1 FY2022. While the earnings are likely to be under pressure in the current fiscal, the overall debt protection metrics are expected to be supported by the debt repayments funded through sale of assets. Nevertheless, its total debt to operating profits and the ROCE are likely to remain at modest levels in FY2023.

**Intense competition exposes earnings to price risk** – SCML faces intense competition in the commoditised textile industry, characterised by low product differentiation and a fragmented nature, which restricts its pricing flexibility. Thus, the earnings of SCML in the denim and yarn segments are vulnerable to the fluctuations in raw material prices, owing to limited pricing flexibility. Over the years, ICRA has witnessed volatility in prices, which have adversely impacted the company's contribution levels and operating margins. Further, the denim industry has witnessed significant cyclicity in the past, with periods of excess market capacity and tight demand-supply situations. However, with improved demand conditions witnessed across the product segments in the recent past, SCML's revenues and earnings are expected to remain steady in the coming quarters.

## Liquidity position: Adequate

The liquidity position of SCML is expected to remain adequate, supported by steady earnings from operations, coupled with unutilised lines of credit and adequate free cash balances. Its cash buffer, including free cash reserves, liquid investments and unutilised working capital limits together was around Rs. 42 crore as on May 31, 2022. The average utilisation of its fund-based limits over the last 12 months ending May 2022 stood at around 81%, given the high working capital requirements in the business.

Further, with SCML planning to prepay its external debts, along with limited debt-funded capital expenditure plans, going forward, the liquidity position is expected to improve further over the medium term.

## Rating Sensitivities

**Positive factors** – The ratings may be upgraded with healthy growth in revenues and improvement in profitability, which would consequently support further improvement in debt protection metrics of the company. A specific credit metric for an upgrade is if TD/OPBDITA reduces to less than 2.5 times, on sustained basis.

**Negative factors** – Pressure on the ratings could arise, if there is any sustained pressure on operating performance or deterioration in the working capital cycle, which would adversely impact the company's liquidity position and coverage metrics. A specific credit metric for a downgrade is if DSCR reduces to less than 1.5 times, on a sustained basis

## Analytical approach

| Analytical Approach             | Comments                                                                                                                                                       |
|---------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Applicable rating methodologies | <a href="#">Corporate Credit Rating Methodology</a><br><a href="#">Indian Textile Industry - Spinning</a><br><a href="#">Indian Textiles Industry – Fabric</a> |
| Parent/Group support            | Not Applicable                                                                                                                                                 |
| Consolidation/Standalone        | The ratings are based on the standalone financial statements of the rated entity.                                                                              |

## About the company

SCML was incorporated in 1962, with an initial capacity of 6,000 spindles for manufacturing cotton and blended yarns. Over a period of five decades, it has expanded its spinning capacity to 86,352 spindles, and has diversified into denim fabric manufacturing with a capacity of 40 million metres per annum (mmpa). SCML is listed on both the Bombay Stock Exchange and the National Stock Exchange. The promoters held a 60.94% stake in SCML as of March 31, 2022, of which 55.01% has been pledged as collateral towards the bank facilities enjoyed by the company.

## Key financial indicators (audited)

| Suryalakshmi Cotton Mills Limited                    | FY2021 | FY2022 |
|------------------------------------------------------|--------|--------|
| Operating income (Rs. crore)                         | 485.8  | 778.1  |
| PAT (Rs. crore)                                      | -2.8   | 0.2    |
| OPBDIT/OI                                            | 7.1%   | 10.2%  |
| PAT/OI                                               | -0.6%  | 0.0%   |
| Total outside liabilities/Tangible net worth (times) | 1.9    | 1.8    |
| Total debt/OPBDIT (times)                            | 9.0    | 3.4    |
| Interest coverage (times)                            | 1.0    | 3.3    |

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 rating (FY2023) |                        |                             |                                                      |                         | Chronology of Rating History for the past 3 years |                               |                               |                         |                       |                         |                       |                                 |                       |
|-------------------------|------------------------|-----------------------------|------------------------------------------------------|-------------------------|---------------------------------------------------|-------------------------------|-------------------------------|-------------------------|-----------------------|-------------------------|-----------------------|---------------------------------|-----------------------|
| Instrument              | Type                   | Amount rated<br>(Rs. crore) | Amount outstanding as of Mar 31, 2022<br>(Rs. crore) | Date & rating in FY2023 | Date & rating in FY2022                           |                               |                               | Date & rating in FY2021 |                       | Date & rating in FY2020 |                       |                                 |                       |
|                         |                        |                             |                                                      |                         | 24-Jun-22                                         | 06-Dec-21                     | 01-Jul-21                     | 06-Jan-21               | 08-Oct-20             | 07-Apr-20               | 27-Dec-19             | 30-Aug-19                       | 24-Jun-19             |
| 1                       | Fund Based/ CC         | Long Term                   | 149.5                                                | -                       | [ICRA]BBB (Stable)                                | [ICRA]BBB- (Stable)           | [ICRA]BB+ (Stable)            | [ICRA]BB-@              | [ICRA]BB-@            | [ICRA]BB@               | [ICRA]BB+@            | [ICRA]BB+ (Negative)            | [ICRA]BB+@            |
| 2                       | Fund Based – Term Loan | Long Term                   | 64.73                                                | 64.73                   | [ICRA]BBB (Stable)                                | [ICRA]BBB- (Stable)           | [ICRA]BB+ (Stable)            | [ICRA]BB-@              | [ICRA]BB-@            | [ICRA]BB@               | [ICRA]BB+@            | [ICRA]BB+ (Negative)            | [ICRA]BB+@            |
| 3                       | Non-fund-based limits  | Short term                  | 53                                                   | -                       | [ICRA]A3+                                         | [ICRA]A3                      | [ICRA]A4+                     | [ICRA]A4@               | [ICRA]A4@             | [ICRA]A4@               | [ICRA]A4+@            | [ICRA]A4+                       | [ICRA]A4+@            |
| 5                       | Unallocated            | Long Term/ Short Term       | 150.52                                               | -                       | [ICRA]BBB (Stable)/ [ICRA]A3+                     | [ICRA]BBB- (Stable)/ [ICRA]A3 | [ICRA]BB+ (Stable)/ [ICRA]A4+ | [ICRA]BB-@/ [ICRA]A4@   | [ICRA]BB-@/ [ICRA]A4@ | [ICRA]BB@/ [ICRA]A4@    | [ICRA]BB+@/ [ICRA]A4@ | [ICRA]BB+ (Negative)/ [ICRA]A4@ | [ICRA]BB+@/ [ICRA]A4@ |

Amount in Crores; Source: SCML

## Complexity level of the rated instruments

| Instrument                                    | Complexity Indicator |
|-----------------------------------------------|----------------------|
| Long-term - Fund Based/ Cash Credit           | Simple               |
| Long-term - Fund based - Term Loan            | Simple               |
| Short-term - Non-fund-based                   | Very Simple          |
| Long-term/short-term – Unallocated facilities | 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: [www.icra.in](http://www.icra.in)

## Annexure I: Instrument details

| ISIN | Instrument Name  | Date of Issuance | Coupon Rate | Maturity  | Amount Rated (Rs. crore) | Current Rating and Outlook      |
|------|------------------|------------------|-------------|-----------|--------------------------|---------------------------------|
| -    | Cash Credit      | NA               | NA          | NA        | 149.50                   | [ICRA]BBB(Stable)               |
| -    | Term Loans       | May-2021         | NA          | June-2026 | 64.73                    | [ICRA]BBB(Stable)               |
| -    | Letter of Credit | NA               | NA          | NA        | 43.00                    | [ICRA]A3+                       |
| -    | Bank Guarantee   | NA               | NA          | NA        | 10.00                    | [ICRA]BBB (Stable)              |
| -    | Unallocated      | NA               | NA          | NA        | 129.37                   | [ICRA]BBB(Stable)/<br>[ICRA]A3+ |

**Source:** Company

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

## ANALYST CONTACTS

**Jayanta Roy**

+91 33 7150 1120

[jayanta@icraindia.com](mailto:jayanta@icraindia.com)

**Kaushik Das**

+91 33 7150 1100

[kaushikd@icraindia.com](mailto:kaushikd@icraindia.com)

**Balaji M**

+91 44 4596 4317

[balaji.m@icraindia.com](mailto:balaji.m@icraindia.com)

**Roshan Dugar**

+91 40 4596 4324

[roshan.dugar@icraindia.com](mailto:roshan.dugar@icraindia.com)

## RELATIONSHIP CONTACT

**Jayanta Chatterjee**

+91 80 4332 6401

[jayantac@icraindia.com](mailto:jayantac@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)

## About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit [www.icra.in](http://www.icra.in)

## ICRA Limited



### Registered Office

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



### Branches



© Copyright, 2022 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website [www.icra.in](http://www.icra.in) or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.