**July 30, 2025**

# Deepak Spinners 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 | 60.00 | 60.00 | [ICRA]A- (Negative); Reaffirmed |
| Long term - Non-Fund Based – Bank Guarantee | 3.00 | 3.00 | [ICRA]A- (Negative); Reaffirmed |
| Short term - Fund Based – Export Packing Credit (Interchangeable)^ | (15.00) | (15.04) | [ICRA]A2+; Reaffirmed |
| Short term - Fund Based – Export Bill Discounting (Interchangeable)^ | (15.00) | (15.04) | [ICRA]A2+; Reaffirmed |
| Short term - Non-Fund Based – Letter of Credit | 2.00 | 2.00 | [ICRA]A2+; Reaffirmed |
| Short term - Non-Fund Based – Credit Exposure Limit | 1.00 | 1.00 | [ICRA]A2+; Reaffirmed |
| Short term - Non-Fund Based – Capex Letter of Credit | 10.00 | 10.00 | [ICRA]A2+; Reaffirmed |
| Long-term/ Short-term - Unallocated limit | 16.10 | 16.10 | [ICRA]A- (Negative)/[ICRA]A2+; Reaffirmed |
| **Total** | **92.10** | **92.10** | |

**Instrument details are provided in Annexure I; ^Within the overall fund-based working capital limit*

## Rationale

The reaffirmation of the ratings with a Negative outlook on the long-term rating for Deepak Spinners Limited (DSL), which manufactures synthetic yarns, considers the sequential weakening of the company's operating margin since FY2024. DSL incurred net losses in all the quarters from Q3 FY2024 to Q4 FY2025 due to an adverse demand-supply situation in the synthetic yarns industry, exerting pressure on its financial performance. The spread between the company's realisation and raw material costs, like many other man-made fibre (MMF) producers, has remained under pressure in the recent quarters. This is primarily due to increase in imports of MMF yarns/fabrics at cheap rates from China, muted domestic demand and a prolonged weakness in the key export markets, mainly the US and Europe, which in turn led to a supply glut in the domestic market. While the export demand remains subdued amid geopolitical tensions, an uptick in domestic demand and spread has been witnessed by DSL in recent weeks. The long-term demand outlook for MMF yarns remains favourable, with the emergence of sportswear, performance wear and athleisure as the major end-use categories. However, a sustained improvement in demand and realisation both in domestic and export markets will remain important for revival of DSL's performance in the near-to-medium term.

Absence of any long-term debt repayment obligation, an adequate buffer in the working capital limits and postponement of relatively large capex planned earlier are likely to support DSL's liquidity position, despite weakening of its profitability. DSL's conservative capital structure, aided by a steady decline in its debt level in the recent years, also supports the ratings, notwithstanding a deterioration in the debt coverage metrics over the last two fiscals due to a significant decline in profitability.

The ratings continue to consider DSL's long operational track record of nearly four decades in manufacturing of blended synthetic yarns and its established relationship with customers, which lead to repeat orders and mitigate counterparty risks. ICRA also notes DSL's efficient use of its assets, marked by its high capacity utilisation, and the company's cost optimisation initiatives, including expansion of the captive solar power capacity in FY2025, which are likely to support its cost structure, going forward. The ratings, however, are constrained by the fragmented structure of the spinning industry, leading to competition among many organised and unorganised players, keeping margins under check. DSL's product-market diversity remains limited, given its presence mainly in the coarse-count yarns segment, a paucity of dying capacity and a modest share of export sales, notwithstanding higher realisations fetched from exports of relatively value-added products. Besides, the company's profitability and cash flows are likely to remain vulnerable to the cyclicality inherent in the textiles sector and the volatility in crude-oil linked raw material prices and realisations.

## Key rating drivers and their description

### Credit strengths

**Long operational track record in manufacturing of blended synthetic yarns** – The company's plant at Baddi, Himachal Pradesh commenced operation in 1986. Subsequently, it had set up another plant at Guna, Madhya Pradesh in 1991 and gradually increased capacities of both the plants. Since the beginning, DSL has been involved in manufacturing of blended synthetic yarns. A long track record of operation and experience of the promoters in the industry mitigate DSL's business risks to an extent.

**Established relationship with customers** – DSL sells its products mainly through dealers and agents. In addition, it directly supplies yarns to a few large players in the apparel/fabric segments. The company's established relationship with its customers generates repeat orders and mitigates counterparty risks.

**High capacity utilisation and presence of captive solar power plants render operational strength** – The company's capacity utilisation had historically remained high, supporting its cost structure. The capacity utilisation declined to 82% in FY2021 from 93% in FY2020 due to the pandemic. However, the same remained above 95% in the subsequent years and reached a peak of 103% in FY2025 despite a subdued demand environment. DSL commissioned a new captive solar power plant of 4 megawatt (MW) in its plant in Madhya Pradesh in June 2024, taking its current solar power capacity to 8 MW, to reduce the power cost of the unit. The increase in captive power capacity and power sourcing arrangement from a 5-MW solar power plant of its Group company, Deepak Industries Limited, for the Guna unit, limited the rise in power cost on the back of a considerable hike in the grid power tariffs over the last couple of years. The company is also focusing on controlling overall cost, manpower rationalisation etc., which are likely to support its profit margins in future.

**Conservative capital structure –** The company's debt level declined gradually since FY2018 with repayment of long-term loans and reduction in working capital borrowings. The gearing and TOL/TNW stood at 0.2 times and 0.5 times, respectively, over the last four fiscals. The company prepaid the outstanding long-term loans in FY2024, reducing its debt service obligation. Despite margin pressure, its working capital debt declined in FY2025, aided by reduction in inventory and receipt of significant GST refunds, which accumulated in the previous years. However, the debt coverage metrics deteriorated over the last two fiscals due to continuing decline in profits.

### Credit challenges

**Highly fragmented and competitive nature of the industry** – The Indian spinning industry is highly fragmented, with the presence of many organised and unorganised players. Competition among the spinners keeps margins under check. Nevertheless, DSL's high capacity utilisation and presence of captive renewable power sources, which currently meet around 40% of the power requirement of its plant in Madhya Pradesh at a cheap rate, positively impact the cost structure. Besides, the company's operational flexibility to supply customised products to its customers renders competitive advantage to an extent.

**Moderate product-market diversity** – DSL mainly manufactures coarse-count grey and dyed yarns of 8-30 counts. The product profile is largely commoditised despite the presence of some value-added and usage-specific products ('melange', sewing threads etc). DSL has a dye house in the plant in Himachal Pradesh, but there is no dyeing facility in the Madhya Pradesh plant, which reduces the scope for value addition. The company fetches better realisations from export of relatively value-added products. However, contribution of exports to DSL's overall revenue remains low (8.9% in FY2025).

**Exposed to volatility in raw material prices and realisations along with cyclicality inherent in the industry** – The company's raw materials mainly comprise staple manmade fibres like polyester, viscose and acrylic fibres, with the major share (95% by volume in FY2025) of polyester in the fibre consumption. Raw material prices and realisations remain correlated to crude oil prices and demand-supply dynamics, exhibiting significant volatility. A cyclical demand pattern for synthetic yarns impacts the profitability and cash flows of all the players in the industry, including DSL. The company's performance improved significantly after the pandemic due to a spurt in demand and a sharp rally in realisations, as reflected by healthy revenues and elevated operating margins in FY2022 and H1 FY2023. However, with a moderation in the spread between realisation and raw material costs, the company's profitability started moderating from Q3 FY2023. Over the last two fiscals, subdued domestic demand and an over-supply situation in the domestic market triggered by slowdown in exports and dumping of cheap yarns and fabric from China affected domestic MMF spinners, including DSL. The company posted a net loss in all the quarters from Q3 FY2025 to Q4 FY2025. In FY2025, the company's operating income grew by 11%, supported by a rise in sales volume, partly attributable to some order spill-over from FY2024. However, the operating margin weakened to 1.1% in FY2025 from 4.9% in FY2024 and 12.7% in FY2023. Its interest coverage and total debt/OPBDITA stood at 1.5 times and 6.3 times, respectively, in FY2025 vis-à-vis 5.9 times and 1.9 times, respectively in FY2024. The company has witnessed an uptick in domestic demand and spread in the recent weeks, however, sustenance of the same will remain critical for a meaningful revival in DSL's performance. While the absence of any long-term debt repayment obligation and an adequate buffer in working capital utilisation currently support DSL's liquidity, sustained weak profitability and cash flows may adversely impact the liquidity position and the overall credit profile of the company.

## Environment and Social Risks

**Environmental considerations**: Synthetic materials made from petrochemicals/ crude oil derivatives are not readily biodegradable, resulting in long-term environmental pollution. This may induce higher compliance costs for MMF spinners like DSL considering long-term environmental pollution implications. Besides, environmental risk for spinners arises from the use of water resources for cleaning and for other manufacturing processes like dyeing. DSL has a dyeing facility in one of its units. It complies with environmental regulations. However, the company would remain exposed to tightening environmental regulations related to breach of waste and pollution norms, which can lead to an increase in the operating costs and new equipment/ capacity installation costs.

**Social considerations**: The social risk for spinning companies emanates from high labour involvement despite increasing mechanisation. The sector is exposed to risks related to labour relations and protests/social issues with local communities, which might impact expansion/modernisation plans. Entities in the spinning sector are also exposed to risks of disruptions due to inability to properly manage human capital in terms of their safety and overall well-being. Shifting in preference towards more environment-friendly alternatives could result in demand-related concerns for MMF spinners in the long term.

## Liquidity position: Adequate

DSL's liquidity is likely to remain adequate. Its cash flow from operations declined steadily over the last two fiscals to around Rs. 12 crore in FY2025 from around Rs. 40 crore in FY2023. However, it is likely to remain resilient in FY2026. DSL does not have any long-term debt repayment obligation at present, as it prepaid the existing term loans in FY2024. It has also postponed the previously planned large capex of around Rs. 80 crore. In FY2025, the company's capex stood at around Rs. 6 crore. In the current fiscal, the company is likely to incur normal capex of around Rs. 5 crore, which would be funded internally. In the medium term, the amount of capex may increase to some extent, depending on the level of internal accruals. Sufficient headroom in working capital limits, with an undrawn limit of around Rs. 23 crore as of May 2025, is likely to support DSL's liquidity, despite deterioration in its cash flow from operations.

## Rating sensitivities

**Positive factors** – The ratings are unlikely to be upgraded in the near term, given the Negative rating outlook. However, specific credit metric that may lead to ratings upgrade, going forward, include ROCE above 15% on a sustained basis.

**Negative factors** – ICRA may downgrade DSL's ratings if its profitability fails to recover meaningfully in the near term and/or its liquidity position worsens. The ratings may be downgraded if DSL's total debt/OPBDITA remains above 2.3 times on a sustained basis.

## Analytical approach

| Analytical approach | Comments |
|---|---|
| **Applicable rating methodologies** | [Corporate Credit Rating Methodology](#)<br>[Textiles - Spinning](#) |
| **Parent/Group support** | Not applicable |
| **Consolidation/Standalone** | For arriving at the ratings, ICRA has considered the standalone financials of the rated entity |

## About the company

Incorporated in 1982 by Mr. Pradip Kumar Daga, DSL manufactures blended synthetic spun yarns. The company has two plants at Baddi in Himachal Pradesh and at Guna in Madhya Pradesh with a total spinning capacity of around 37,000 metric tonnes per annum. The Baddi and Guna units have around 41,000 and 54,000 spindles, respectively. Additionally, the Baddi unit has a dye house. The company mainly produces synthetic yarns of 8-30 counts. The Guna plant has captive solar power plants of 8 MW, including an offsite plant of 1 MW. It also draws power from a 5-MW solar power plant of its Group company, Deepak Industries Limited. DSL's equity shares are listed on BSE. The promoter Group held around 46% of DSL's shares as on June 30, 2025.

### Key financial indicators (audited)

| DSL | FY2024 | FY2025 |
|---|---|---|
| **Operating income** | 471.8 | 524.9 |
| **PAT** | 1.3 | -10.2 |
| **OPBDIT/OI** | 4.9% | 1.1% |
| **PAT/OI** | 0.3% | -1.9% |
| **Total outside liabilities/Tangible net worth (times)** | 0.5 | 0.5 |
| **Total debt/OPBDIT (times)** | 1.9 | 6.3 |
| **Interest coverage (times)** | 5.9 | 1.5 |

*Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount 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 ratings (FY2026) | | | Chronology of rating history for the past 3 years | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Type | Amount rated (Rs. Crore) | 30-Jul-2025 | FY2026 | | FY2025 | | FY2024 | | FY2023 | |
| | | | | Date | Rating | Date | Rating | Date | Rating | Date | Rating |
| **Fund Based – Cash Credit** | Long term | 60.00 | [ICRA]A- (Negative) | 02-Jun-2025 | [ICRA]A- (Negative) | 23-Aug-2024 | [ICRA]A- (Negative) | 31-May-2023 | [ICRA]A- (Stable) | - | - |
| **Non-Fund Based – Bank Guarantee** | Long term | 3.00 | [ICRA]A- (Negative) | 02-Jun-2025 | [ICRA]A- (Negative) | 23-Aug-2024 | [ICRA]A- (Negative) | 31-May-2023 | [ICRA]A- (Stable) | - | - |
| **Fund Based – Export Packing Credit (Interchangeable)*** | Short Term | (15.04) | [ICRA]A2+ | 02-Jun-2025 | [ICRA]A2+ | 23-Aug-2024 | [ICRA]A2+ | 31-May-2023 | [ICRA]A2+ | - | - |
| **Fund Based – Bill Discounting (Interchangeable)*** | Short Term | (15.04) | [ICRA]A2+ | 02-Jun-2025 | [ICRA]A2+ | 23-Aug-2024 | [ICRA]A2+ | 31-May-2023 | [ICRA]A2+ | - | - |
| **Non-Fund Based – Letter of Credit** | Short Term | 2.00 | [ICRA]A2+ | 02-Jun-2025 | [ICRA]A2+ | 23-Aug-2024 | [ICRA]A2+ | 31-May-2023 | [ICRA]A2+ | - | - |
| **Non-Fund Based – Capex Letter of Credit** | Short Term | 10.00 | [ICRA]A2+ | 02-Jun-2025 | [ICRA]A2+ | 23-Aug-2024 | [ICRA]A2+ | 31-May-2023 | [ICRA]A2+ | - | - |
| **Non-Fund Based – Credit Exposure Limit** | Short term | 1.00 | [ICRA]A2+ | 02-Jun-2025 | [ICRA]A2+ | 23-Aug-2024 | [ICRA]A2+ | 31-May-2023 | [ICRA]A2+ | - | - |
| **Unallocated limit** | Long term/ Short term | 16.10 | [ICRA]A- (Negative)/ [ICRA]A2+ | 02-Jun-2025 | [ICRA]A- (Negative)/ [ICRA]A2+ | 23-Aug-2024 | [ICRA]A- (Negative)/ [ICRA]A2+ | 31-May-2023 | [ICRA]A- (Stable)/ [ICRA]A2+ | - | - |
| **Term Loan** | Long term | - | - | - | - | - | - | 31-May-2023 | [ICRA]A- (Stable) | - | - |
| **Standby Line of Credit** | Short term | - | - | - | - | - | - | 31-May-2023 | [ICRA]A2+ | - | - |

**Within the overall fund-based working capital limit*

## Complexity level of the rated instruments

| Instrument | Complexity indicator |
|---|---|
| **Long term – Fund Based (Cash Credit)** | Simple |
| **Long term – Non-Fund Based (Bank Guarantee)** | Very simple |
| **Short term – Fund Based – Interchangeable (Export Packing Credit)*** | Simple |
| **Short term – Fund Based – Interchangeable (Bill Discounting)*** | Simple |
| **Short term – Non-Fund Based (Letter of Credit)** | Very simple |
| **Short term – Non-Fund Based (Capex Letter of Credit)** | Very simple |
| **Short term – Non-Fund Based (Credit Exposure Limit)** | Very simple |

| | |
|---|---|
| **Long term/short term – Unallocated limit** | Not applicable |

**Within the overall fund-based working capital limit*

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. Crores) | Current rating and outlook |
|---|---|---|---|---|---|---|
| **NA** | **Fund Based – Cash Credit** | NA | NA | NA | 60.00 | [ICRA]A- (Negative) |
| **NA** | **Non-Fund Based – Bank Guarantee** | NA | NA | NA | 3.00 | [ICRA]A- (Negative) |
| **NA** | **Fund Based – Export Packing Credit (Interchangeable)*** | NA | NA | NA | (15.04) | [ICRA]A2+ |
| **NA** | **Fund Based – Bill Discounting (Interchangeable)*** | NA | NA | NA | (15.04) | [ICRA]A2+ |
| **NA** | **Non-Fund Based – Letter of Credit** | NA | NA | NA | 2.00 | [ICRA]A2+ |
| **NA** | **Non-Fund Based – Capex Letter of Credit** | NA | NA | NA | 10.00 | [ICRA]A2+ |
| **NA** | **Non-Fund Based – Credit Exposure Limit** | NA | NA | NA | 1.00 | [ICRA]A2+ |
| **NA** | **Unallocated limit** | NA | NA | NA | 16.10 | [ICRA]A- (Negative)/ [ICRA]A2+ |

*Source: Company; *Within the overall fund-based working capital limit*

*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

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

## ICRA Limited

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