

## Bannari Amman Spinning Mills Limited

January 06, 2023

### Ratings

Facilities	Amount (₹ crore)	Rating <sup>1</sup>	Rating Action
Long-term bank facilities	285.76 (Enhanced from 245.02)	CARE BBB; Stable (Triple B; Outlook: Stable)	Reaffirmed
Long-term / Short-term bank facilities	303.00	CARE BBB; Stable / CARE A3 (Triple B; Outlook: Stable/ A Three)	Reaffirmed
Short-term bank facilities	114.00	CARE A3 (A Three)	Reaffirmed
<b>Total bank facilities</b>	<b>702.76</b> <b>(₹ Seven hundred two crore and seventy-six lakh only)</b>		

Details of instruments/facilities in Annexure-1.

### Detailed rationale and key rating drivers

The ratings assigned to the bank facilities of Bannari Amman Spinning Mills Limited (BASML) continue to derive strength from the established track record of the company in the cotton spinning industry, the experience of the promoters and management with funding support, and partly integrated nature of operations with a diversified product and customer profile. The ratings also favorably consider the infusion of equity capital of ₹100 crore through rights issue to reduce the debt levels during FY22, thereby improving the capital structure. The ratings are, however, constrained by moderate debt protection metrics, the susceptibility of the profit margins to the inherent volatility associated with the cotton and yarn prices with net losses witnessed in H1FY23, and the cyclical nature associated with the textile industry.

### Rating sensitivities

#### Positive factors – Factors that could lead to positive rating action/upgrade:

- Improvement in the scale of operations above ₹1,400.0 crore by maintaining the PBILDT margins more than 12% on a sustained basis.
- Ability to reduce debt levels and improve overall gearing below 0.8x

#### Negative factors – Factors that could lead to negative rating action/downgrade:

- Any sharp decline in the total operating income to below ₹500 crore with drop in profitability on sustained basis.
- Any prolonged adverse impact on profitability due to volatile raw material prices.

### Detailed description of the key rating drivers

#### Key rating strengths

##### Vast experience of the promoters in the textile industry:

S.V.Arumugam, the Chairman and Managing Director holds a Bachelors' Degree in Science and is a qualified Chartered Accountant. He has more than two and half decades of experience in the textile industry especially in planning procurement, execution and management. A.Senthil, the Chief Executive Officer of the company, an MBA degree holder from Erasmus University Netherlands, also has over a decade of experience in textile sector.

##### Established track record of operations with diverse product range:

BASML has been in operations since 1989 and belongs to one of the prominent industrial groups in South India, the Bannari Amman group. The group has varied business interests including sugar, distilleries, textiles, granite, wind power energy, education, health care, real estate, automobiles etc. BASML is primarily into the manufacture of cotton yarn (including Ring spun, organic and compact yarn) and offers a diverse product range in the count range of 30s to 50s. The company is also into manufacture of Home textiles and made ups such as Flat Sheet, Fitted Sheet, Duvet Cover, Valance, Pillowcase, Sheet Set and also Baby Products.

##### Reputed and diverse customer profile with widespread geographic presence:

BASML's yarn is sold in major consuming centres like Tirupur, Kolkata and Kanpur. In the domestic market the company has over 400 customers. The company also exports to China, Bangladesh, Korea, Philippines, Srilanka, Tunisia and European markets. Exports accounted for 22% (PY: 23%) of the total income for FY22. The top ten customers contribute to 15.66% (PY: 20.82%) of total sales in FY22.

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careedge.in](http://www.careedge.in) and other CARE Ratings Ltd.'s publications

**Improved leverage levels with fund infusion through rights issue**

BASML's capital structure improved with overall gearing at 0.97x, as on March 31, 2022 (1.70x as on March 31, 2021). BASML has successfully implemented One Time Restructuring for its term loan facilities on June 20, 2021 following which repayment obligations was reduced during FY23 and FY24. As a part of the restructuring proposal, BASML had carried out a rights issue of ₹100.0 crore including promoter contribution of ₹55.55 crore and the rest through public subscription.

**Key rating weaknesses****Moderate financial performance during H1FY23**

The PBILDT margin had improved from 7.84% in FY21 to 11.64% in FY22 with better realization of yarn. However, in H1FY23 owing to higher raw material prices amidst slowdown in yarn demand and sluggish export market the company reported net loss of ₹11.1 crore on the total income of ₹546.0 crore against PAT of ₹29.9 crore on total income of ₹525.7 crore in H1FY22. BASML also reported cash loss of ₹1.5 crore in H1FY23. The company managed the working capital through GECL loans of ₹74.3 crore availed during the current year. The debt protection metrics stood moderate with interest coverage of 0.94 times in H1FY23.

**Volatility in raw material prices**

The group's profitability is susceptible to the movement in the prices of raw cotton which is the key raw material for production of cotton yarn. The prices of raw cotton are volatile in nature and depend upon factors such as area under production, yield, vagaries of monsoon, international demand-supply scenario, inventory carry forward from the previous year and export quota along with minimum support price (MSP) decided by the government. Prices of raw cotton have been volatile over last couple of years, which translates into risk of inventory losses for the industry players. The cotton price had increased significantly in H1FY23 thereby impacting the profitability of the company.

**Liquidity- Adequate**

Liquidity characterized as adequate by sufficient cushion in accruals of ₹86.9 crore in FY22 vis-à-vis repayment obligations of Rs. 8.58 crore and moderate cash balance of ₹10.7 crore as on March 31, 2022. BASML has an operating cycle of 76 days with average inventory of 65 days in FY22. The company generally offers its customers credit period of around 50-60 days for its customers. The company also pay its creditors in around 45 days. The average utilization of working capital stood at 72.40% for the past 12 months ended October 2022.

**Industry outlook and prospects**

The CAI Crop Committee has estimated the total cotton supply (including import) of the cotton season 2022-23 to 339.75 lakh bales, beginning from October 2022, as the domestic production is expected to decline. The domestic consumption for the season is estimated at 300 lakh bales against 318 lakh bales in the previous season. The prices of raw cotton in India are currently at least 10-14 per cent higher than prices in international markets affecting spinning sector of textile industry.

The textile and apparel sector is facing uncertainty and challenges in demand and operational profitability for the last three months. However, on a long-term basis, Indian cotton spinners are expected to maintain stable demand growth and profitability supported by increasing urbanisation, rising disposable income, China+1 strategy adopted by the major global retail players along with various incentives from government like RoDTEP, RoSCTL and PLI scheme etc.

**Analytical approach:**

Standalone

**Applicable criteria**

[Policy on default recognition](#)

[Financial Ratios – Non financial Sector](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Credit Watch](#)

[Short Term Instruments](#)

[Cotton Textile](#)

[Manufacturing Companies](#)

**About the Trust**

BASML was originally incorporated in the year 1989 by the name Shiva Textile (CBT) Limited and was renamed as BASML in 1991. BASML is part of the Coimbatore-based Bannari Amman Group (BAG) of companies which has presence in textiles, automobile dealership, sugar, distilleries, power and education. BASML is a vertically-integrated textile mill with an installed capacity of 145,440 spindles, weaving capacity of 153 looms, knitting capacity of 7200 tonnes p.a and processing capacity of 5400 tonnes per annum. The sale of yarn contributed 57.0% (PY: 54.2%), fabric 30.0% (PY: 33.7%), processing 3.0% (PY: 3.2%) and garment 3.7% (PY: 2.5%) of total operating income of the company in FY22.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	H1FY23 (P)
Total operating income	859.64	1,288.58	546.0
PBILDT	67.37	150.03	21.6
PAT	(10.55)	48.70	(11.1)
Overall gearing (times)	1.70	0.97	1.20
Interest coverage (times)	1.19	3.24	0.94

A: Audited; P: Provisional

**Status of non-cooperation with previous CRA:**

Not Applicable

**Any other information:**

Not Applicable

**Rating History for last three years:** Please refer Annexure-2**Covenants of rated instrument / facility:** Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3**Complexity level of various instruments rated for this company:** Annexure 4**Annexure-1: Details of instruments/facilities**

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	52.00	CARE BBB; Stable
Fund-based - LT-Term Loan		-	-	December 2028	233.76	CARE BBB; Stable
Fund-based - LT/ ST-CC/Packing Credit		-	-	-	303.00	CARE BBB; Stable / CARE A3
Fund-based - ST-Working Capital Limits		-	-	-	40.00	CARE A3
Non-fund-based - ST-Bank Guarantee		-	-	-	1.00	CARE A3
Non-fund-based - ST-BG/LC		-	-	-	10.00	CARE A3
Non-fund-based - ST-Forward Contract		-	-	-	3.00	CARE A3
Non-fund-based - ST-Letter of credit		-	-	-	60.00	CARE A3

**Annexure-2: Rating history for the last three years**

Sr. No.	Name of the Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based - LT-Term Loan	LT	233.76	CARE BBB; Stable	-	1)CARE BBB; Stable (24-Mar-22) 2)CARE BBB; Stable (05-Apr-21)	1)CARE BBB; Stable (24-Sep-20)	1)CARE BBB+; Negative (05-Feb-20)
2	Fund-based - LT/ ST-	LT/ST*	303.00	CARE BBB; Stable /	-	1)CARE BBB; Stable / CARE A3	1)CARE BBB; Stable /	1)CARE BBB+;

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	CC/Packing Credit			CARE A3		(24-Mar-22) 2)CARE BBB; Stable / CARE A3 (05-Apr-21)	CARE A3 (24-Sep-20)	Negative / CARE A3+ (05-Feb-20)
3	Non-fund-based - ST-BG/LC	ST	10.00	CARE A3	-	1)CARE A3 (24-Mar-22) 2)CARE A3 (05-Apr-21)	1)CARE A3 (24-Sep-20)	1)CARE A3+ (05-Feb-20)
4	Non-fund-based - ST-Letter of credit	ST	60.00	CARE A3	-	1)CARE A3 (24-Mar-22) 2)CARE A3 (05-Apr-21)	1)CARE A3 (24-Sep-20)	1)CARE A3+ (05-Feb-20)
5	Non-fund-based - ST-Bank Guarantee	ST	1.00	CARE A3	-	1)CARE A3 (24-Mar-22) 2)CARE A3 (05-Apr-21)	1)CARE A3 (24-Sep-20)	1)CARE A3+ (05-Feb-20)
6	Non-fund-based - ST-Forward Contract	ST	3.00	CARE A3	-	1)CARE A3 (24-Mar-22) 2)CARE A3 (05-Apr-21)	1)CARE A3 (24-Sep-20)	1)CARE A3+ (05-Feb-20)
7	Fund-based - LT-Cash Credit	LT	52.00	CARE BBB; Stable	-	1)CARE BBB; Stable (24-Mar-22) 2)CARE BBB; Stable (05-Apr-21)	1)CARE BBB; Stable (24-Sep-20)	1)CARE BBB+; Negative (05-Feb-20)
8	Fund-based - ST-Working Capital Limits	ST	40.00	CARE A3	-	1)CARE A3 (24-Mar-22) 2)CARE A3 (05-Apr-21)	1)CARE A3 (24-Sep-20)	1)CARE A3+ (05-Feb-20)

\*Long term/Short term.

### Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities

Not applicable

### Annexure-4: Complexity level of various instruments rated for this company

Sr. No.	Name of Instrument	Complexity Level
1	Fund-based - LT-Cash Credit	Simple
2	Fund-based - LT-Term Loan	Simple
3	Fund-based - LT/ ST-CC/Packing Credit	Simple
4	Fund-based - ST-Working Capital Limits	Simple
5	Non-fund-based - ST-Bank Guarantee	Simple
6	Non-fund-based - ST-BG/LC	Simple
7	Non-fund-based - ST-Forward Contract	Simple
8	Non-fund-based - ST-Letter of credit	Simple

**Annexure-5: Bank lender details for this company**

To view the lender wise details of bank facilities please [click here](#)

**Note on complexity levels of the rated instruments:** CARE Ratings Limited (CARE Ratings) has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to [care@careedge.in](mailto:care@careedge.in) for any clarifications.

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