

Bannari Amman Spinning Mills Limited

December 15, 2023

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long-term bank facilities	285.76	CARE BBB (RWD)	Placed on 'Rating watch with developing implications'
Long-term/Short-term bank facilities	303.00	CARE BBB/CARE A3 (RWD)	Placed on 'Rating watch with developing implications'
Short-term bank facilities	114.00	CARE A3 (RWD)	Placed on 'Rating watch with developing implications'

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The ratings assigned to the bank facilities of Bannari Amman Spinning Mills Limited (BASML) have been placed on 'Credit watch with developing implications' following the announcement made by the company with regard to the sale of various assets, including its garment unit, land and buildings, and the transfer/disinvestment/sale of BASML's equity shareholding in the subsidiary – Young Brand Apparel Private Limited (YBAPL; rated 'CARE BBB (CWD)/CARE A3+(CWD)'), and raising of funds up to ₹200 crore.

BASML has further announced its proposal to venture into alternate areas of business such as healthcare services. CARE Ratings Limited (CARE Ratings) is in discussion with the company for greater clarity on the above developments and will continue to monitor the developments in this regard.

The ratings assigned to the bank facilities of 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 the partly integrated nature of operations with a diversified product and customer profile.

The ratings are, however, constrained by the moderate debt protection metrics, the susceptibility of the profit margins to the inherent volatility associated with cotton and yarn prices, and the cyclicity associated with the textile industry.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Improvement in the scale of operations above ₹1,400 crore by maintaining a profit before interest, lease rentals, depreciation and taxation (PBILDIT) margin of more than 12% on a sustained basis.
- The ability to reduce its debt levels and improve the overall gearing below 0.8x.

Negative factors

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

Analytical approach: Standalone

Detailed description of the key rating drivers

Key strengths

Operational track record 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, healthcare, real estate, and automobiles, among others. BASML is primarily manufactures 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 the manufacturing of home textiles and made-ups such as flat sheet, fitted sheet, duvet cover, valance, pillowcase, sheet sets, as well as baby products.

¹Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

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. It also exports to China, Bangladesh, Korea, Philippines, Sri Lanka, Tunisia, and the European markets. Exports accounted for 22% (PY: 23%) of BASML's total income for FY22. The top 10 customers contributed to 15.66% (PY: 20.82%) of the total sales in FY22.

Vast experience of the promoters in the textile industry

SV Arumugam, Chairman and Managing Director, BASML, 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..

Key weaknesses**Declined financial performance in FY23; gradual improvement in H1FY24**

The financial performance of BASML deteriorated in FY23 owing to higher raw material prices amid the slowdown in yarn demand and the sluggish exports market. In FY23, the company reported a net loss of ₹34.84 crore on a total income of ₹1,095.78 crore as against a net profit of ₹48.70 crore on a total income of ₹1,288.60 crore in FY22. However, with a reduction in the prices of cotton the performance gradually improved in H1FY24, with the company reporting a PBILDT margin of 5.16% as against 2.19% in FY23. BASML reported marginal a cash profit of ₹0.56 crore in H1FY24 as against a cash loss of ₹21.30 crore in FY23.

Moderate capital structure, expected to improve

The overall gearing moderated to 1.40x as on March 31, 2023, as against 0.97x as on March 31, 2022, due to the availment of Guaranteed Emergency Credit Line (GECL) loans and increased working capital borrowings during the end of the year. The capital structure of BASML is expected to improve, going forward, in the near term considering the debt reduction plans through the sale of assets and the raising of funds through rights issue.

Volatility in raw material prices

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

Liquidity: Adequate

The liquidity characterised as adequate, supported by the timely infusion of funds from the promoters in the past and a free cash balance of ₹17.0 crore as on March 31, 2023, as against repayment obligations of ₹22.48 crore in FY24. BASML has an operating cycle of 113 days in FY23 with an average inventory of 85 days in FY23, which increased from 65 days in FY22 due to the slow movement of finished goods. BASML generally offers its customers a credit period of around 50-60 days. The company also pays its creditors in around 45 days. BASMPL has working capital limits of ₹355 crore and the average utilisation of the same stood at 60% for the last six months ended November 30, 2023.

Industry outlook and prospects

The textile industry faced several challenges in FY23, including the disparity between domestic and international cotton prices, a decline in global demand due to high inflation and recessionary pressures in developed economies, and increased energy and supply chain costs. However, on a long-term basis, Indian cotton spinners are expected to maintain stable demand growth and profitability, supported by increasing urbanisation, rising disposable incomes, the China + 1 strategy adopted by major global retail players, along with various incentives from the government such as the Remission of Duties and Taxes on Export Products (RoDTEP), the Rebate of State & Central Taxes and Levies (RoSCTL), and the production-linked incentive (PLI) scheme, among others.

Assumptions/Covenants: Not applicable

Environment, social, and governance (ESG) risks: Not applicable

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 company and industry

Industry classification

Macro-economic Indicator	Sector	Industry	Basic Industry
Consumer discretionary	Textiles	Textiles and apparels	Other textile products

BASML was originally incorporated in 1989 by the name 'Shiva Textile (CBT) Limited' and was renamed as BASML in 1991. The company is part of the Coimbatore-based Bannari Amman Group 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, A weaving capacity of 153 looms, A knitting capacity of 7,200 tonne per annum, and a processing capacity of 5400 tonne per annum. The sale of yarn contributed 56.3% (PY: 57.0%), fabric – 26.7% (PY: 30.0%), processing – 4.1% (PY: 3.1%), and garment – 4.9% (PY: 3.7%) to the TOI of the company in FY23.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	H1FY24 (UA)
Total operating income	1,288.58	1095.78	508.13
PBILDT	150.03	24.04	26.50
PAT	48.70	(34.84)	(10.42)
Overall gearing (times)	0.97	1.40	NA
Interest coverage (times)	3.24	0.50	1.02

A: Audited; UA: Unaudited; NA: Not available. Note: The above results are the latest financial results available.

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated instruments/facilities: Detailed explanation of the covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of the various instruments rated: Annexure-4

Lender details: Annexure-5

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 (RWD)
Fund-based - LT-Term loan		-	-	December 2028	233.76	CARE BBB (RWD)
Fund-based - LT/ ST-CC/Packing credit		-	-	-	303.00	CARE BBB / CARE A3 (RWD)
Fund-based - ST-Working capital limits		-	-	-	40.00	CARE A3 (RWD)
Non-fund-based - ST-Bank guarantee		-	-	-	1.00	CARE A3 (RWD)
Non-fund-based - ST-BG/LC		-	-	-	10.00	CARE A3 (RWD)
Non-fund-based - ST-Forward contract		-	-	-	3.00	CARE A3 (RWD)
Non-fund-based - ST-Letter of credit		-	-	-	60.00	CARE A3 (RWD)

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2023-2024	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
1	Fund-based - LT-Term loan	LT	233.76	CARE BBB (RWD)	-	1)CARE BBB; Stable (06-Jan-23)	1)CARE BBB; Stable (24-Mar-22) 2)CARE BBB; Stable (05-Apr-21)	1)CARE BBB; Stable (24-Sep-20)

2	Fund-based - LT/ ST-CC/Packing credit	LT/ST*	303.00	CARE BBB / CARE A3 (RWD)	-	1)CARE BBB; Stable / CARE A3 (06-Jan- 23)	1)CARE BBB; Stable / CARE A3 (24-Mar- 22) 2)CARE BBB; Stable / CARE A3 (05-Apr- 21)	1)CARE BBB; Stable / CARE A3 (24-Sep- 20)
3	Non-fund-based - ST-BG/LC	ST	10.00	CARE A3 (RWD)	-	1)CARE A3 (06-Jan- 23)	1)CARE A3 (24-Mar- 22) 2)CARE A3 (05-Apr- 21)	1)CARE A3 (24-Sep- 20)
4	Non-fund-based - ST-Letter of credit	ST	60.00	CARE A3 (RWD)	-	1)CARE A3 (06-Jan- 23)	1)CARE A3 (24-Mar- 22) 2)CARE A3 (05-Apr- 21)	1)CARE A3 (24-Sep- 20)
5	Non-fund-based - ST-Bank guarantee	ST	1.00	CARE A3 (RWD)	-	1)CARE A3 (06-Jan- 23)	1)CARE A3 (24-Mar- 22) 2)CARE A3 (05-Apr- 21)	1)CARE A3 (24-Sep- 20)
6	Non-fund-based - ST-Forward contract	ST	3.00	CARE A3 (RWD)	-	1)CARE A3 (06-Jan- 23)	1)CARE A3 (24-Mar- 22) 2)CARE A3 (05-Apr- 21)	1)CARE A3 (24-Sep- 20)
7	Fund-based - LT- Cash credit	LT	52.00	CARE BBB (RWD)	-	1)CARE BBB; Stable (06-Jan- 23)	1)CARE BBB; Stable (24-Mar- 22)	1)CARE BBB; Stable (24-Sep- 20)

							2)CARE BBB; Stable (05-Apr- 21)	
8	Fund-based - ST- Working capital limits	ST	40.00	CARE A3 (RWD)	-	1)CARE A3 (06-Jan- 23)	1)CARE A3 (24-Mar- 22) 2)CARE A3 (05-Apr- 21)	1)CARE A3 (24-Sep- 20)

*Long term/Short term.

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

Not applicable

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the 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: Lender details

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

Note on the complexity levels of the rated instruments: 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 for any clarifications.

Contact Us

<p>Media Contact</p> <p>Mradul Mishra Director CARE Ratings Limited Phone: +91-22-6754 3596 E-mail: mradul.mishra@careedge.in</p> <p>Relationship Contact</p> <p>Ankur Sachdeva Senior Director CARE Ratings Limited Phone: 91 22 6754 3444 E-mail: Ankur.sachdeva@careedge.in</p>	<p>Analytical Contacts</p> <p>Sandeep P Director CARE Ratings Limited Phone: 914428501002 E-mail: sandeep.prem@careedge.in</p> <p>Naveen S Assistant Director CARE Ratings Limited Phone: 914224502305 E-mail: naveen.kumar@careedge.in</p> <p>Ragavilashini Muralikrishnan Analyst CARE Ratings Limited E-mail: Ragavilashini.M@careedge.in</p>
---	---

About us:

Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

Disclaimer:

The ratings issued by CARE Ratings are opinions on the likelihood of timely payment of the obligations under the rated instrument and are not recommendations to sanction, renew, disburse, or recall the concerned bank facilities or to buy, sell, or hold any security. These ratings do not convey suitability or price for the investor. The agency does not constitute an audit on the rated entity. CARE Ratings has based its ratings/outlook based on information obtained from reliable and credible sources. CARE Ratings does not, however, guarantee the accuracy, adequacy, or completeness of any information and is not responsible for any errors or omissions and the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE Ratings have paid a credit rating fee, based on the amount and type of bank facilities/instruments. CARE Ratings or its subsidiaries/associates may also be involved with other commercial transactions with the entity. In case of partnership/proprietary concerns, the rating/outlook assigned by CARE Ratings is, inter-alia, based on the capital deployed by the partners/proprietors and the current financial strength of the firm. The ratings/outlook may change in case of withdrawal of capital, or the unsecured loans brought in by the partners/proprietors in addition to the financial performance and other relevant factors. CARE Ratings is not responsible for any errors and states that it has no financial liability whatsoever to the users of the ratings of CARE Ratings. The ratings of CARE Ratings do not factor in any rating-related trigger clauses as per the terms of the facilities/instruments, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and triggered, the ratings may see volatility and sharp downgrades.

**For the detailed Rationale Report and subscription information,
please visit www.careedge.in**