

Bannari Amman Spinning Mills Limited

April 02, 2024

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long-term bank facilities	297.98 (Enhanced from 285.76)	CARE BBB-; Negative	Revised from CARE BBB (rating watch with developing implications) and removed from rating watch with developing implications; Negative outlook assigned
Long-term/short-term bank facilities	303.00	CARE BBB-; Negative/CARE A3	Revised from CARE BBB/CARE A3 (rating watch with developing implications) and removed from rating watch with developing implications; Negative outlook assigned
Short-term bank facilities	114.00	CARE A3	Reaffirmed and removed from rating watch with developing implications

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

CARE Ratings Limited (CARE Ratings) had earlier placed ratings of bank facilities of Bannari Amman Spinning Mills Limited (BASML) under 'credit watch with developing implications' following the company's announcement regarding the sale of assets, including its garment unit, land and buildings, and the transfer or disinvestment or sale of BASML's equity shareholding in the subsidiary – Young Brand Apparel Private Limited (YBAPL; rated 'CARE BBB (RWD)/CARE A3+ (RWD)'), and raising funds up to ₹200 crore through rights issue of equity share. BASML has further announced its proposal to venture into alternate businesses such as healthcare services.

Subsequently, BASML has signed a memorandum of understanding (MoU) with S.P. Apparels Limited for selling above-mentioned assets and investments for cumulative proceeds of ₹153 crore. BASML has received part proceeds as advances and expects the entire sale to be completed before Q1FY25. The income from this sale will be deployed for reducing debt. In the interim, the company's performance remains affected with a slowdown in demand from export markets. With higher repayments coming up in FY25, the asset sale and investments are expected to offer liquidity cushion; however, operation performance is expected to be under pressure. CARE Ratings also understands that the rights issue is expected to take time and happen post the above sale transaction is completed, while the proposal to venture into alternate businesses is in nascent stages with no concrete proposal in place. Considering these developments, CARE Ratings has resolved the credit watch and revised ratings.

Ratings derive strength from the company's established track record in the cotton spinning industry, experience of promoters and management with funding support, and the partly integrated operations with a diversified product and customer profile.

However, ratings are constrained by the susceptibility of 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

- Improving profit before interest, lease rentals, depreciation and taxation (PBILDT) margin, resulting in interest coverage (PBILDT/interest) above 2x on a sustained basis.
- Reduce debt levels, as envisaged, through sale of assets and improving the overall gearing to below 1.2x.

Negative factors

- Sharply declining total operating income (TOI) to below ₹500 crore with drop in profitability on a sustained basis.
- Adverse impact on profitability due to volatile raw material prices.
- Significant delay in monetising assets and subsequent debt reduction from envisaged timelines.

Analytical approach: Standalone

Outlook: Negative

The outlook is negative as CARE Ratings expects the company's profitability to be moderate in the near term on the back of subdued demand in the textile industry. CARE Ratings also expects cash accruals to be stretched against larger repayment

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

obligations. The outlook will be revised to stable if the company is able to ramp-up scale of operations and generate adequate accruals and reduce debt.

Detailed description of 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 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 also manufactures home textiles and made-ups such as flat sheet, fitted sheet, duvet cover, valance, pillowcase, sheet sets, and baby products.

Reputed and diverse customer profile with widespread geographic presence

BASML's yarn is sold in major consuming centres such as Tirupur, Kolkata, and Kanpur. In the domestic market, the company has more than 400 customers. It also exports to China, Bangladesh, Korea, the Philippines, Sri Lanka, Tunisia, and the European markets. Exports accounted for 4% (PY: 22%) of BASML's total income for FY23. Top 10 customers contributed to 21.91% (PY: 15.66%) of the total sales in FY23.

Vast experience of 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-a-half decades of experience in the textile industry, especially in planning, procurement, execution, and management.

Key weaknesses

Declined financial performance

BASML's TOI has declined to ₹1,095.78 crore in FY23 from ₹1,288.58 crore in FY22 by 15% y-o-y due to moderate yarn demand in both, domestic and export markets with reduced capacity utilisation. The company reported PBILDT margin of 2.19% in FY23, decreased from 11.64% in FY22. It also incurred cash losses of ₹21.30 crore in FY23 as against cash profits of ₹86.94 crore in FY22. In 9mFY24, the performance marginally improved and the company reported nominal cash profits of ₹2.12 crore on total income of ₹713.56 crore.

Moderate capital structure and weak debt protection metrics

The overall gearing moderated to 1.40x as on March 31, 2023, as against 0.97x as on March 31, 2022, due to availing guaranteed emergency credit line (GECL) loans and increased working capital borrowings during year-end. Debt protection metrics stood weak with cash losses in FY23. CARE Ratings expect BASML's capital structure to improve in the near term, considering debt reduction plans through sale of assets and fundraising through rights issue, which is a key monitorable due to large repayment obligations in the medium term.

Volatile raw material prices

The group's profitability is susceptible to movements in prices of raw cotton, the key raw material for producing cotton yarn. Raw cotton prices are volatile in nature and depend on 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 with the minimum support price (MSP) decided by the government. Raw cotton prices have been volatile over past few years, translating into risk of inventory losses for industry players. Cotton prices increased significantly in H1FY23, thus impacting the company's profitability.

Liquidity: Adequate

The liquidity characterised as adequate, supported by promoters infusing funds on time 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. Proceeds from the proposed sale of assets and investments are also expected to ease liquidity constraints. BASML has an operating cycle of 113 days in FY23 with an average inventory of 85 days in FY23, increased from 65 days in FY22 due to slow movements of finished goods. BASML generally offers its customers a credit period of about 50-60 days. The company also pays its creditors in about 45 days. BASMPL has working capital limits of ₹355 crore and the average utilisation of the same stood at 78% for last 12 months ended February 29, 2024.

Assumptions/Covenants: Not applicable

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

Applicable criteria

[Definition of Default](#)

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

[Rating Outlook and Rating Watch](#)

[Manufacturing Companies](#)

[Financial Ratios – Non financial Sector](#)

[Cotton Textile](#)

[Short Term Instruments](#)

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 5,400 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 company's TOI in FY23.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	9mFY24 (UA)
Total operating income	1,288.58	1095.78	713.56
PBILDT	150.03	24.04	41.23
PAT	48.70	(34.84)	(14.07)
Overall gearing (times)	0.97	1.40	NA
Interest coverage (times)	3.24	0.50	1.12

A: Audited; UA: Unaudited; NA: Not available. Note: These are latest financial results available.

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

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

Covenants of rated instruments/facilities: Annexure-3

Complexity level of 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-; Negative
Fund-based - LT-Term loan		-	-	December 2028	245.98	CARE BBB-; Negative
Fund-based - LT/ ST-CC/Packing credit		-	-	-	303.00	CARE BBB-; Negative / 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 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	245.98	CARE BBB-; Negative	1)CARE BBB (RWD) (15-Dec-23)	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-; Negative / CARE A3	1)CARE BBB / CARE A3 (RWD) (15-Dec-23)	1)CARE BBB; Stable / CARE A3 (06-Jan-23)	1)CARE BBB; Stable / CARE A3 (24-Mar-22)	1)CARE BBB; Stable / CARE A3 (24-Sep-20)

							2)CARE BBB; Stable / CARE A3 (05-Apr-21)	
3	Non-fund-based - ST-BG/LC	ST	10.00	CARE A3	1)CARE A3 (RWD) (15-Dec-23)	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	1)CARE A3 (RWD) (15-Dec-23)	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	1)CARE A3 (RWD) (15-Dec-23)	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	1)CARE A3 (RWD) (15-Dec-23)	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-; Negative	1)CARE BBB (RWD) (15-Dec-23)	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)
8	Fund-based - ST-Working capital limits	ST	40.00	CARE A3	1)CARE A3 (RWD)	1)CARE A3	1)CARE A3	1)CARE A3

					(15-Dec-23)	(06-Jan-23)	(24-Mar-22)	(24-Sep-20)
							2)CARE A3 (05-Apr-21)	

LT: Long term; ST: Short term; LT/ST: Long term/short term.

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

Not applicable

Annexure-4: Complexity level of 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 complexity levels of 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.

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About us:

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