

Bannari Amman Spinning Mills Limited

March 24, 2022

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating ¹	Rating Action
Long-term Bank Facilities	245.02 (Enhanced from 188.50)	CARE BBB; Stable (Triple B; Outlook: Stable)	Reaffirmed
Long-term / Short-term Bank Facilities	303.00 (Reduced from 330.00)	CARE BBB; Stable / CARE A3 (Triple B; Outlook: Stable/ A Three)	Reaffirmed
Short-term Bank Facilities	114.00 (Reduced from 149.00)	CARE A3 (A Three)	Reaffirmed
Total Bank Facilities	662.02 (Rs. Six hundred sixty-two crore and two lakh only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & 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, partly-integrated nature of operations with a diversified product and customer profile. The ratings are, however, constrained by moderate leverage levels, the susceptibility of the profit margins to the inherent volatility associated with the cotton and yarn prices and the cyclical nature associated with the textile industry. The ratings also take note of the one time restructuring (OTR) implemented by the company on June 24, 2021 post the Reserve Bank of India (RBI) announcement of 'Resolution Framework for COVID-19 related stress' on August 6, 2020, and the infusion of funds in the company through rights issue on October 9, 2021.

Key Rating Sensitivities:

Positive Factor - Factors that could lead to positive rating action/upgrade:

- Improvement in the scale of operations and profitability with profit before interest, lease rentals, depreciation and taxation (PBILDT) margins at more than 12% on a sustained basis.
- Ability to reduce debt levels and improve overall gearing below 1.5x.

Negative Factor - Factors that could lead to negative rating action/downgrade:

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

Detailed description of key rating drivers

Key rating Strengths

Vast experience of the promoters in the textile industry

Mr..S.V.Arumugam, the Chairman and Managing Director holds a Bachelo'rs 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. Mr.A.Senthil, the Chief Executive Officer of the company, is an MBA degree holder from the Erasmus University in Netherlands and 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 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 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 cities like Tirupur, Kolkata and Kanpur. In the domestic market the company has over 400 customers. The company also exports to China, Bangladesh, Korea, Philippines, Sri Lanka, Tunisia and the European markets. Exports accounted for 23% (PY: 16%) of the total income for FY21. The top ten customers contribute to 20.82% (PY: 16.13%) of the total sales in FY21.

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

Implementation of OTR plan and infusion of funds through rights issue

BASML has invoked an OTR on December 28, 2020, post RBI announcement of the 'Resolution Framework for COVID-19 related stress'. The OTR was implemented on June 24, 2021, aiding the company's residual tenure of the loans to be elongated up to two years. As a part of the restructuring proposal, BASML had raised Rs.99.99 crore through rights issue on October 09, 2021 which was used to reduce unsecured loans and working capital borrowings

Key Rating Weaknesses

Declined financial performance during FY21 however improved during 9m FY22

The operating income of BASML dropped by 7.26% in FY21 to Rs.860.8 crore from Rs. 926.4 crore as there were no operations for almost two months due to COVID induced lockdown. The company reported losses in FY21 due to lower capacity utilisation, higher fixed overhead and increased labour costs. The PBILDT margin declined from 8.25% in FY20 to 7.96% in FY21. However, the situation improved in 9mFY22 and with better demand for yarn and increased sales realisation, the company reported a PAT of Rs.47.2 crore on a total income of Rs. 904.7 crore. The PBILDT margin improved to 14.17% in 9mFY22.

Moderate leverage levels

BASML's capital structure continued to remain moderate albeit improved with an overall gearing of 1.70x, as on March 31, 2021 (2.03x as on March 31, 2020) due to the debt-funded capex incurred in the past.

Volatility in raw material prices

The profitability of spinning mills depends largely on the prices of cotton and cotton yarn which are governed by various factors such as area under cultivation, monsoon, international demand-supply situation, among others. Cotton being the major raw material of spinning mills, the movement in cotton prices without parallel movement in yarn prices impacts the profitability of the spinning mills. The cotton textile industry is inherently prone to the volatility in cotton and yarn prices.

Liquidity- Adequate

Adequate liquidity characterised by sufficient cushion in accruals vis-à-vis repayment obligations and moderate cash balance of Rs.8.8 crore as on March 31, 2021. BASMPL has an operating cycle of 115 days with an average inventory of 101 days in FY21. The company generally offers its customers credit period of around 50-60 days. The company also pays its creditors in around 45 days. BASMPL has working capital limits of Rs. 395.0 crore (including bill discounting limits of Rs.40 crore) and the average utilisation of the same stood at 79.76% for the past 12 months ended December 2021. The company has availed COVID loan of Rs. 44.0 crore in FY22.

Industry outlook

The international cotton prices are expected to remain stable in the coming months supported by an expected improvement in global domestic cotton consumption and international trade demand with ending cotton stocks likely to decline by 3%. The cotton prices in India are also expected to be steady in the coming months backed by a likely growth in domestic consumption and improvement in cotton exports from India. While the international demand for the cotton yarn is expected to stay stable backed by an increase in economic activities with the launch of the COVID-19 vaccination drive in various parts of the world, it remains to be seen if Bangladesh continues to import significant quantity of cotton yarn from India.

Analytical approach:

Standalone

Applicable Criteria

[Policy on default recognition](#)

[Analytical Treatment of Restructuring - COVID](#)

[Financial Ratios – Non financial Sector](#)

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

[Rating Outlook and Credit Watch](#)

[Short Term Instruments](#)

[Cotton Textile](#)

[Manmade Yarn Manufacturing](#)

[Manufacturing Companies](#)

About the Company

Bannari Amman Spinning Mills Limited (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 a presence in textiles, automobile dealership, sugar, distilleries, power and education. BASML's BASML is a vertically integrated textile mill with cotton spinning, weaving, knitting and processing. The sale of yarn contributed 54.18% (PY: 58.44%), fabric 33.73% (PY: 30.51%), processing 3.15% (PY: 2.87%) and garment 2.54% (PY: 0.87%) of TOI of the company in FY21.

Brief Financials (Rs. crore) – Standalone	FY20(A)	FY21(A)	9mFY22 (UA)
TOI	926.40	860.80	904.7
PBILDT	76.50	68.60	128.2
PAT	0.20	-10.50	47.2
Overall gearing (times)	2.03	1.70	NA
Interest coverage (times)	1.18	1.21	3.53

A: Audited; UA: Un Audited; NA: Not Available

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	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan		-	-	December 2028	193.02	CARE BBB; Stable
Fund-based - LT/ ST-CC/Packing Credit		-	-	-	303.00	CARE BBB; Stable / CARE A3
Non-fund-based - ST-BG/LC		-	-	-	10.00	CARE A3
Non-fund-based - ST-Letter of credit		-	-	-	60.00	CARE A3
Non-fund-based - ST-Bank Guarantee		-	-	-	1.00	CARE A3
Non-fund-based - ST-Forward Contract		-	-	-	3.00	CARE A3
Fund-based - LT-Cash Credit		-	-	-	52.00	CARE BBB; Stable
Fund-based - ST-Working Capital Limits		-	-	-	40.00	CARE A3

Annexure-2: Rating history of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Fund-based - LT-Term Loan	LT	193.02	CARE BBB; Stable	1)CARE BBB; Stable (05-Apr-21)	1)CARE BBB; Stable (24-Sep-20)	1)CARE BBB+; Negative (05-Feb-20)	1)CARE BBB+; Stable (05-Nov-18)
2	Fund-based - LT/ST-CC/Packing Credit	LT/ST*	303.00	CARE BBB; Stable / CARE A3	1)CARE BBB; Stable / CARE A3 (05-Apr-21)	1)CARE BBB; Stable / CARE A3 (24-Sep-20)	1)CARE BBB+; Negative / CARE A3+ (05-Feb-20)	1)CARE BBB+; Stable / CARE A3+ (05-Nov-18)
3	Non-fund-based - ST-BG/LC	ST	10.00	CARE A3	1)CARE A3 (05-Apr-21)	1)CARE A3 (24-Sep-20)	1)CARE A3+ (05-Feb-20)	1)CARE A3+ (05-Nov-18)
4	Non-fund-based - ST-Letter of credit	ST	60.00	CARE A3	1)CARE A3 (05-Apr-21)	1)CARE A3 (24-Sep-20)	1)CARE A3+ (05-Feb-20)	1)CARE A3+ (05-Nov-18)
5	Non-fund-based - ST-Bank Guarantee	ST	1.00	CARE A3	1)CARE A3 (05-Apr-21)	1)CARE A3 (24-Sep-20)	1)CARE A3+ (05-Feb-20)	1)CARE A3+ (05-Nov-18)
6	Non-fund-based - ST-Forward Contract	ST	3.00	CARE A3	1)CARE A3 (05-Apr-21)	1)CARE A3 (24-Sep-20)	1)CARE A3+ (05-Feb-20)	1)CARE A3+ (05-Nov-18)
7	Fund-based - LT-Cash Credit	LT	52.00	CARE BBB; Stable	1)CARE BBB; Stable (05-Apr-21)	1)CARE BBB; Stable (24-Sep-20)	1)CARE BBB+; Negative (05-Feb-20)	1)CARE BBB+; Stable (05-Nov-18)
8	Fund-based - ST-Working Capital Limits	ST	40.00	CARE A3	1)CARE A3 (05-Apr-21)	1)CARE A3 (24-Sep-20)	1)CARE A3+ (05-Feb-20)	1)CARE A3+ (05-Nov-18)

* Long Term / Short Term

Annexure-3: Detailed explanation of covenants of the rated instrument / 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 CompanyTo view the lender wise details of bank facilities please [click here](#)

Note on complexity levels of the rated instrument: CARE Ratings Ltd. 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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