

Bannari Amman Spinning Mills Limited

September 24, 2020

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long-term Bank Facilities	237.69	CARE BBB; Stable (Triple B; Outlook: Stable)	Revised from CARE BBB+; Negative (Triple B Plus; Outlook: Negative) and outlook revised from negative
Long-term / Short-term Bank Facilities	332.00	CARE BBB; Stable / CARE A3 (Triple B ; Outlook: Stable / A Three)	Revised from CARE BBB+; Negative / CARE A3+ (Triple B Plus ; Outlook: Negative / A Three Plus) and outlook revised from negative
Short-term Bank Facilities	175.50	CARE A3 (A Three)	Revised from CARE A3+ (A Three Plus)
Total Facilities	745.19 (Rs. Seven hundred forty five crore and nineteen lakh only)		

Details of facilities in Annexure-1

Detailed Rationale & Key rating drivers

The revision in the ratings assigned to the bank facilities of Bannari Amman Spinning Mills Limited (BASML) factors in the pressure on the cash generation in the company due to the tepid operating environment leading to deterioration in debt coverage indicators over the last few quarters. While the company has availed the moratorium on debt as part of the Covid relief, it is likely that the company would continue to remain dependent on external fund infusion to manage liquidity. The promoters have infused funds to the extent of Rs.22 crore in FY20 (refers to the period April 1 to March 31) and Rs.10 crore in FY21; however, this remains lower than what was envisaged earlier and with lesser-than-expected cash generation due to the impact of the Covid, etc, the dependence on external funds would be higher. CARE, however, notes that the promoters are expected to bring in additional funds to support the operations in the interim and additional funds by way of a rights issue or qualified institutions placement or private placement/public issue of equity of Rs.225 crore is also being planned to deleverage the company over the next two years.

The ratings are also constrained by the susceptibility of the profit margins to the inherent volatility associated with the cotton & yarn prices and cyclicity associated with the textile industry.

The ratings, however derive strength from the established track record of the company in the cotton spinning industry, experience of the promoters & management, partly-integrated nature of operations with diversified product and customer profile.

Rating Sensitivities

Positive factors

- Success of the debt reduction initiatives of the company such as infusion of funds by the promoters and sale of assets/investments within next one year resulting in overall gearing below 1.5x.
- Improvement in the scale of operations and profitability with PBILDT margins at more than 12% on a sustained basis.

Negative factors

- Any sharp decline in the total operating income to below Rs.500 crore on account of an extended impact of the Covid pandemic.
- Any 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: Mr..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. Mr.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.

¹Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications

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, Sri Lanka, Tunisia and European markets. Exports accounted for 23.20% (PY: 38.37%) of the total income for FY19. The top 10 customers contribute to 12.39% (PY: 8.64%) of the total sales during FY19.

Key Rating Weaknesses

Moderate financial performance during FY20 and Q1FY21: The operating income of BASML dropped by 6.34% from Rs.1007.3 crore in FY19 to Rs.943.3 crore in FY20 and stood lower than expected for the year due to lower sales in the month of March 2020. The PBILDT margin also moderated from 10.93% in FY19 to 9.91% in FY20 due to higher cotton (raw material) prices particularly in Q2 & Q3FY20. PAT also moderated to Rs.0.19 crore in FY20 as against Rs.19.3 crore in FY19. During Q1FY21, the operations of the company were impacted by the covid lockdown and the company reported income of Rs.107.39 crore in Q1FY21 vis-à-vis Rs.228.76 crore in Q1FY20. BASML reported cash loss of Rs.19.55 crore in Q1FY21 as against gross cash accruals of Rs.12.53 crore in Q1FY20.

Moderate leverage levels and debt protection metrics: BASML's capital structure is moderate with overall gearing of 2.07x, as on March 31, 2020 (2.16x as on March 31, 2019). The debt coverage indicators also stood moderate with total debt/ GCA of 19.71x as on March 31, 2020 (PY: 13.82x). The company reported loss before interest, depreciation and tax (operating loss) of Rs.5.45 crore in Q1FY21.

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, etc. Cotton being the major raw material of spinning mills, movement in cotton prices without parallel movement in yarn prices impact the profitability of the spinning mills. The cotton textile industry is inherently prone to the volatility in cotton and yarn prices.

Liquidity- Adequate

The promoters infused unsecured loans in the past one year and are also expected to infuse additional funds in the current year in the form of unsecured loans which is expected to aid in meeting repayment obligations of around Rs.37.5 crore for FY21. The cash balance stood at Rs.6 crore as on June 30, 2020 (Rs.26.56 crore as on March 31, 2020). The current ratio stood below unity at 0.85x as on March 31, 2020 on account of high working capital and current maturities of long term debt. The operating cycle of the company moderated to 149 days in FY20 (PY: 124 days) due to higher finished goods inventory at the end of the year. The average working capital utilization of the company stood 80% for the past 12 months ended August 2020. BASML had opted for moratorium for interest and principal repayment during the period March-August 2020 as a relief measure offered by the bank for Covid-19 pandemic.

Industry outlook and impact of Covid

After lean demand since FY15, with intermittent spells of good periods, the Indian cotton yarn industry was expecting a change of fortune in FY20. The Cotton Association of India (CAI) has projected a record cotton crop of 354.5 lakh bales for CS2019-2020, which is around 14% higher than the last season crop of 312 lakh bales. However the demand distortions caused from Covid-19 pandemic are expected to hurt the domestic textiles production as well. Given the unfavorable demand scenario, textile firms may not utilize their full capacities or may undertake production cuts thus bringing down the overall output of textiles in the medium term. Covid-19 is expected to lead to drop in the revenue along with moderation in profitability margins and debt coverage indicators apart from impacting the liquidity profiles of most of the companies engaged in the sector.

Analytical approach: Standalone

Applicable Criteria

[Criteria on assigning 'Outlook' and 'credit watch' to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Criteria for Short-term Instruments](#)

[Financial ratios –Non-Financial Sector](#)

[CARE's methodology for manufacturing companies](#)
[Rating Methodology - Cotton Textile Manufacturing](#)
[Liquidity Analysis of Non-Financial Sector Entities](#)

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 presence in textiles, automobile dealership, sugar, distilleries, power and education. Originally promoted by Mr S.V. Balasubramaniam and his brothers, presently the next generation members of the group are actively engaged in managing their respective businesses. BASML's main activity is cotton spinning with an installed capacity of 1,45,440 spindles as on November 30, 2019. BASML also has weaving capacity of 153 looms, knitting capacity of 10,800 tonnes p.a, garment capacity of 6 million pieces p.a and processing capacity of 3600 tonnes per annum.

Brief Financials (Rs. crore)	FY19(A)	FY20(A)
Total operating income	1,007.3	943.4
PBILDT	110.1	93.4
PAT	19.3	0.19
Overall gearing (times)	2.16	2.07
Interest coverage (times)	1.77	1.44

Status of non-cooperation with previous CRA:

Not Applicable

Any other information:

Not Applicable

Rating History for last three years: Please refer Annexure-2

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	November 2029	222.69	CARE BBB; Stable
Fund-based - LT/ ST-CC/Packing Credit	-	-	-	332.00	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 Guarantees	-	-	-	1.00	CARE A3
Non-fund-based - ST-Forward Contract	-	-	-	4.50	CARE A3
Fund-based - LT-Cash Credit	-	-	-	15.00	CARE BBB; Stable
Fund-based - ST-Working Capital Limits	-	-	-	100.00	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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Term Loan	LT	222.69	CARE BBB; Stable	-	1)CARE BBB+; Negative (05-Feb-20)	1)CARE BBB+; Stable (05-Nov-18)	1)CARE BBB+; Stable (14-Feb-18) 2)CARE BBB+; Stable (08-Jan-18)
2.	Fund-based - LT/ST-CC/Packing Credit	LT/ST	332.00	CARE BBB; Stable / CARE A3	-	1)CARE BBB+; Negative / CARE A3+ (05-Feb-20)	1)CARE BBB+; Stable / CARE A3+ (05-Nov-18)	1)CARE BBB+; Stable / CARE A3+ (14-Feb-18) 2)CARE BBB+; Stable / CARE A3+ (08-Jan-18)
3.	Non-fund-based - ST-BG/LC	ST	10.00	CARE A3	-	1)CARE A3+ (05-Feb-20)	1)CARE A3+ (05-Nov-18)	1)CARE A3+ (14-Feb-18) 2)CARE A3+ (08-Jan-18)
4.	Non-fund-based - ST-Letter of credit	ST	60.00	CARE A3	-	1)CARE A3+ (05-Feb-20)	1)CARE A3+ (05-Nov-18)	1)CARE A3+ (14-Feb-18) 2)CARE A3+ (08-Jan-18)
5.	Non-fund-based - ST-Bank Guarantees	ST	1.00	CARE A3	-	1)CARE A3+ (05-Feb-20)	1)CARE A3+ (05-Nov-18)	1)CARE A3+ (14-Feb-18) 2)CARE A3+ (08-Jan-18)

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
6.	Non-fund-based - ST-Forward Contract	ST	4.50	CARE A3	-	1)CARE A3+ (05-Feb-20)	1)CARE A3+ (05-Nov-18) 2)CARE A3+ (08-Jan-18)	1)CARE A3+ (14-Feb-18) 2)CARE A3+ (08-Jan-18)
7.	Fund-based - LT-Cash Credit	LT	15.00	CARE BBB; Stable	-	1)CARE BBB+; Negative (05-Feb-20)	1)CARE BBB+; Stable (05-Nov-18)	1)CARE BBB+; Stable (14-Feb-18)
8.	Fund-based - ST-Working Capital Limits	ST	100.00	CARE A3	-	1)CARE A3+ (05-Feb-20)	1)CARE A3+ (05-Nov-18)	1)CARE A3+ (14-Feb-18)

Annexure 3: Complexity level of various instruments rated for this company

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 Guarantees	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

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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