

## Bannari Amman Spinning Mills Limited

February 05, 2020

### Ratings

Facilities	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Long term Bank Facilities	237.69 (reduced from 281.27)	CARE BBB+; Negative (Triple B Plus; Outlook: Negative)	Revised from CARE BBB+; Stable (Triple B Plus; Outlook: Stable)
Short term Bank Facilities	175.50 (reduced from 198.75)	CARE A3+ (A Three Plus)	Reaffirmed
Long term/ Short term Bank Facilities	332 (reduced from 362)	CARE BBB+; Negative/ CARE A3+ (Triple B Plus; Outlook: Negative/ A Three Plus)	Revised from CARE BBB+; Stable/ CARE A3+ (Triple B Plus; Outlook: Stable/ A Three Plus)
<b>Total Facilities</b>	<b>745.19</b> <b>(Rs. Seven hundred and forty five crore and nineteen lakhs only)</b>		

Details of 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 factor in 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.

The ratings are, however, constrained by the susceptibility of the profit margins to the inherent volatility associated with the cotton & yarn prices, moderate leverage levels and debt coverage metrics, low ROCE (return on capital employed) as BASML is yet to reap the full benefits of investment made in the past few years and cyclicity associated with the textile industry.

The outlook is 'Negative' on account of pressure on sharp drop in sales in the current financial year due to an unfavorable operating environment and impact on the overall profit levels of the company. The company is embarking on a debt reduction initiative in the near future, the success of which along with the profitable scaling up of operations may lead to a revision in the rating outlook to stable. However, any sharp decline in profits and consequent impact on the liquidity or capital structure of the company may lead to a downward revision in the rating.

### 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.
- Improvement in scale of operations and profitability with PBDIT margins at more than 12% on a sustained basis.

#### Negative factors

- Any sharp deterioration in profit levels leading to pressure on the liquidity position of the company.

### 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.

**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 madeups such as Flat Sheet, Fitted Sheet, Duvet Cover, Valance, Pillowcase, Sheet Set and also Baby Products. During FY19, the yarn and Fabrics (including Hometextiles) contributed to 54.54% (PY: 50.71%) and 33.85% (PY:35.80%) of total income respectively.

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and other CARE 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. The company also exports to China, Bangladesh, Korea, Philippines, Sri Lanka, Tunisia and European markets. The exports contribute to 23.20% (PY: 38.37%) of total income for FY19. The top 10 customers contribute to 12.39% (PY: 8.64%) of total sales during FY19

#### Key Rating Weaknesses

**Moderate leverage levels:** With debt funded capital expenditure programs undertaken by the company in the past few years and the working capital intensive nature of operations, BASML's capital structure is moderately leveraged as reflected by the overall gearing of 2.16x, as on March 31, 2019 (2.19x as on March 31, 2018). The debt coverage indicators also stood moderate with total debt/ GCA of 13.82x as on March 31, 2019 (PY: 17.80x).

#### Growth in operating income during FY19, however declined during H1FY20 with reduced accruals;

BASML registered growth in income of 12.25% (y-o-y) during FY19 with total operating income of Rs.1007.3 crore in FY19 as against Rs.897 crore in FY18, supported by increase in domestic yarn sales. However during H1FY20 (Provisional), the operating income declined to Rs.446 crore as against Rs.509 crore in H1FY19 on account of slow movement of exports due to unfavourable price scenario. PAT declined from Rs.11.6 crore in H1FY19 to Rs.6.4 crore in H1FY20 resulting in lower accruals of Rs.23.1 crore against Rs.27.3 crore in H1FY19.

**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. The 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:** Liquidity is marked by tightly matched accruals to repayment obligations, high utilization of working capital limits and modest cash balance of Rs.5.7 crore as on March 31, 2019. The promoters are expected to infuse funds in the next one year in the form of unsecured loans which is expected to ease repayment obligations. The current ratio stood below unity at 0.87x as on March 31, 2019 on account of high working capital and current maturities of long term debt. The operating cycle of the company stood at 124 days in FY19 (PY: 119 days). The average working capital utilization of the company was 80% for the 12 months ended November 2019.

#### Analytical approach:

Standalone

#### Applicable Criteria

[CARE's methodology for manufacturing companies](#)

[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](#)

[Rating Methodology for Cotton textile Manufacturing](#)

#### 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)	FY18 (A)	FY19(A)
Total operating income	897.3	1,007.3
PBILDT	92.3	110.1
PAT	7.3	19.3
Overall gearing (times)	2.19	2.16
Interest coverage (times)	1.62	1.77

**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+; Negative
Fund-based - LT/ ST-CC/Packing Credit	-	-	-	332.00	CARE BBB+; Negative / 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+; Negative
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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - LT-Term Loan	LT	222.69	CARE BBB+; Negative	-	1)CARE BBB+; Stable (05-Nov-18)	1)CARE BBB+; Stable (14-Feb-18) 2)CARE BBB+; Stable (08-Jan-18)	1)CARE A-; Negative (30-Dec-16)
2.	Fund-based - LT/ ST-CC/Packing Credit	LT/ST	332.00	CARE BBB+; Negative / CARE A3+	-	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)	1)CARE A-; Negative / CARE A2 (30-Dec-16)
3.	Non-fund-based - ST-BG/LC	ST	10.00	CARE A3+	-	1)CARE A3+ (05-Nov-18)	1)CARE A3+ (14-Feb-18) 2)CARE A3+ (08-Jan-18)	1)CARE A2 (30-Dec-16)
4.	Non-fund-based - ST-Letter of credit	ST	60.00	CARE A3+	-	1)CARE A3+ (05-Nov-18)	1)CARE A3+ (14-Feb-18) 2)CARE A3+ (08-Jan-18)	1)CARE A2 (30-Dec-16)
5.	Non-fund-based - ST-Bank Guarantees	ST	1.00	CARE A3+	-	1)CARE A3+ (05-Nov-18)	1)CARE A3+ (14-Feb-18) 2)CARE A3+ (08-Jan-18)	1)CARE A2 (30-Dec-16)
6.	Non-fund-based - ST-Forward Contract	ST	4.50	CARE A3+	-	1)CARE A3+ (05-Nov-18)	1)CARE A3+ (14-Feb-18) 2)CARE A3+ (08-Jan-18)	1)CARE A2 (30-Dec-16)
7.	Fund-based - LT-Cash Credit	LT	15.00	CARE BBB+; Negative	-	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-Nov-18)	1)CARE A3+ (14-Feb-18)	-

**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](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

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