

Bannari Amman Spinning Mills Limited

November 05, 2018

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long term Bank Facilities	281.27	CARE BBB+; Stable (Triple B Plus; Outlook: Stable)	Reaffirmed
Short term Bank Facilities	198.75	CARE A3+ (A Three Plus)	Reaffirmed
Long term/ Short term Bank Facilities	362.00	CARE BBB+; Stable/ CARE A3+ (Triple B Plus; Outlook: Stable/ A Three Plus)	Reaffirmed
Total Facilities	842.02 (Rs. Eight hundred and forty two crore and two lakhs 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 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 increasing share of value-added products sold and synergies of operations with group companies, Shiva Taxyarn Limited and Shiva Mills Limited.

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, high debt in relation to accruals, low ROCE (return on capital employed) as BASML is yet reap the full benefits of investment made in the past few years and cyclicity associated with the textile industry.

Going forward, the ability of BASML to improve profitability, capital structure and cash accruals through optimal utilization of enhanced capacities and manage fluctuations in the cotton and yarn prices are key rating sensitivities.

Detailed description of the key rating drivers

Established track record of operations and 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. BASML is primarily into the manufacture of cotton yarn and offers a diverse product range in the count range of 16s to 60s. The company is also engaged in manufacturing of fabric (knitting/weaving) and garmenting. Further, in FY18 (refers to the period April 01 to March 31), the company has ventured into retail marketing under the brand name 'Bitz' for both innerwear and outer garments.

Synergies of operations with group companies

Shiva Taxyarn Limited (STL; rated CARE BBB; Stable/ CARE A3+) and Shiva Mills Ltd (SML, rated CARE BBB; Stable, CARE/ A3+), are group companies being engaged in the similar business of spinning yarn with a combined installed capacity of 91,488 spindles. The cost advantages stem from synergies of operations with STL and SML. The benefits can be seen in cotton sourcing at low cost, a key element in the spinning industry. The marketing and production strategies are also formulated keeping the interest of all three companies in perspective. However, there have been very limited financial transactions between the group companies.

Increasing contribution from value added segments

BASML has presence in spinning, weaving, knitting, garmenting and processing. With gradual increase in capacity in the various value added segments in the past few years, revenue contribution from spinning segment has been on declining trend. Presently, in the cotton yarn spinning the company produces yarn having count range from 16s to 60s and the weaving division specializes in wide-width fabrics. In the garment division the company mainly produces t-shirts and inner wear for men and women.

While the fabric sales have picked up in the recent past, the spinning business remains major revenue contributor for BASML, with nearly 54% (PY: 57%) of the total operating income in FY18 being generated from the sale of cotton yarn. Although high exposure to yarn has made earnings volatile, relatively diverse product offering has mitigated the risks to some extent.

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

Stable financial performance during FY18 and Q1FY19

BASML registered growth in TOI of 3.1% (y-o-y) during FY18 with TOI of Rs.898 crore as against TOI of Rs.871 crore in FY17. The growth was mainly contributed by increase in income from fabric division (growth of 20% y-o-y) – mainly knitted fabrics. Although the sales from yarn manufactured increased 28% y-o-y in FY18, the sales from yarn trading and yarn job-work (outsourcing fabric conversion on behalf of its clients) declined drastically due to discontinuance of favourable tax structure post-GST implementation. The spinning division's performance was impacted in Q2 and Q3, due to decline in yarn prices, resulting in sales of finished goods produced from higher priced cotton inventory. However, on a year on year basis, yarn sales realization remained flat. The PBILDT margin remained flat in FY18 at 10.33% (PY: 10.14%). However, due to higher interest expense arising from increase in borrowings, PAT declined 34% y-o-y during FY18 to Rs.7 crore (PY: Rs.11 crore).

During Q1FY19 the company witnessed growth of 19% in TOI in y-o-y basis. BASL achieved PAT of Rs.5 crore and GCA of Rs.12 crore on TOI of Rs.252 crore as against PAT of Rs.6 crore and GCA of Rs.13 crore on TOI of Rs.211 crore in Q1FY18. The PBILDT margin was 10.82% in Q1FY19 as against 12.24% in Q1FY18.

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 2.19x, as on March 31, 2018 (1.92x as on March 31, 2017). With lower than expected cash accruals during FY18, the company availed long term working capital loan of Rs.78 crore during the period to augment its liquidity position. Debt to cash accruals remains high as marked by TDGCA of 17.77 (PY: 14.05).

Debt funded capex incurred in last few years gradually improving prospects but yet to reap full benefits

BASML incurred debt funded capex of Rs.175 crore spread across FY16-FY18 mainly on account of capacity enhancement in its processing, knitting, weaving and garmenting divisions and for value additions in the spinning division. During this period, the company had incurred capex of Rs.78 crore in the spinning division to debottleneck the manufacturing units to improve productivity. This has increased the yarn production from 70 tons/day in FY18 to 90 tons/day in Q1FY19.

Capex pertaining to weaving and knitting unit over the past few years have resulted in increased income from these divisions during FY16-FY18. The company has incurred capex of around Rs.46 crore and Rs.17 crore in garment and processing divisions, respectively, spread during FY16-FY18 for capacity enhancement, however BASML is yet to reap benefits of enhanced capacity in these divisions.

Industry outlook

In Cotton Season 2018-19 (CS19), cotton prices are expected to marginally pick up from the current levels and remain firm with the new cotton arrivals in the market on back of improved global demand (exports) and increased MSP by the Government. With limited supply in the market during H1 CS19 on account of increased orders from China, prices are expected to register a growth of about 5-7% and reach Rs.122 - 125 per kg during this period and average at about Rs.127 - 130 per kg for CS19 registering a y-o-y growth of about 9-11%. Cotton yarn production in India continued to remain sluggish during the CS18 registering only a marginal growth of about 0.1% y-o-y after declining by about 2% during the CS17. Going forward, in CS19, with high cotton prices and sluggish domestic and export demand for cotton yarn, the yarn production is expected to stagnate at the current levels.

Analytical approach: Standalone

Applicable Criteria

[Criteria on assigning Outlook to Credit Ratings](#)

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

[Rating Methodology-Manufacturing Companies](#)

[Rating Methodology-Cotton Yarn Industry](#)

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

[CARE's methodology for Short-term Instruments](#)

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 1,44,240 spindles as on September 30, 2018. BASML also has weaving capacity of 153 looms, knitting capacity of 10,800 tonnes p.a, garment capacity of 8 million pieces p.a and processing capacity of 4320 tonnes per annum. Yarn and fabric continue to contribute to major share of the

operating income of the company. The sale of yarn contributed nearly 54% (PY:57%), fabric 31% (PY:26%), processing 6% (PY:7%) and garment 2% (PY:3%) of total operating income of the company in FY18.

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	871	898
PBILDT	88	93
PAT	11	7
Overall gearing (times)	1.92	2.19
Interest coverage (times)	2.02	1.63

A: Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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

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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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	-	-	March 2027	271.27	CARE BBB+; Stable
Fund-based - LT/ ST-CC/Packing Credit	-	-	-	362.00	CARE BBB+; Stable / CARE A3+
Non-fund-based - ST-BG/LC	-	-	-	10.00	CARE A3+
Non-fund-based - ST-Letter of credit	-	-	-	85.00	CARE A3+
Non-fund-based - ST-Bank Guarantees	-	-	-	1.00	CARE A3+
Non-fund-based - ST-Forward Contract	-	-	-	7.75	CARE A3+
Fund-based - LT-Cash Credit	-	-	-	10.00	CARE BBB+; Stable
Fund-based - ST-Working Capital Limits	-	-	-	95.00	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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT-Term Loan	LT	271.27	CARE BBB+; Stable	-	1)CARE BBB+; Stable (14-Feb-18) 2)CARE BBB+; Stable (08-Jan-18)	1)CARE A-; Negative (30-Dec-16)	1)CARE A- (10-Dec-15)
2.	Fund-based - LT/ ST-CC/Packing Credit	LT/ST	362.00	CARE BBB+; Stable / CARE A3+	-	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)	1)CARE A- / CARE A2+ (10-Dec-15)
3.	Non-fund-based - ST-BG/LC	ST	10.00	CARE A3+	-	1)CARE A3+ (14-Feb-18) 2)CARE A3+ (08-Jan-18)	1)CARE A2 (30-Dec-16)	1)CARE A2+ (10-Dec-15)
4.	Non-fund-based - ST-Letter of credit	ST	85.00	CARE A3+	-	1)CARE A3+ (14-Feb-18) 2)CARE A3+ (08-Jan-18)	1)CARE A2 (30-Dec-16)	1)CARE A2+ (10-Dec-15)
5.	Non-fund-based - ST-Bank Guarantees	ST	1.00	CARE A3+	-	1)CARE A3+ (14-Feb-18) 2)CARE A3+ (08-Jan-18)	1)CARE A2 (30-Dec-16)	1)CARE A2+ (10-Dec-15)
6.	Non-fund-based - ST-Forward Contract	ST	7.75	CARE A3+	-	1)CARE A3+ (14-Feb-18) 2)CARE A3+ (08-Jan-18)	1)CARE A2 (30-Dec-16)	1)CARE A2+ (10-Dec-15)
7.	Fund-based - LT-Cash Credit	LT	10.00	CARE BBB+; Stable	-	1)CARE BBB+; Stable (14-Feb-18)	-	-
8.	Fund-based - ST-Working Capital Limits	ST	95.00	CARE A3+	-	1)CARE A3+ (14-Feb-18)	-	-

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