

Press Release

Birin Spinning Mills Limited

May 02, 2019



Rating Reaffirmed and Assigned

Total Bank Facilities Rated*	Rs. 25.00 Cr.
Long Term Rating	ACUITE BB- / Outlook: Stable

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed long-term rating of '**ACUITE BB-**' (**read as ACUITE BB minus**) on the Rs. 15.65 crore bank facilities of Birin Spinning Mills Limited. The outlook is '**Stable**'.

Acuité has assigned long-term rating of '**ACUITE BB-**' (**read as ACUITE BB minus**) on the Rs. 9.35 crore bank facilities of Birin Spinning Mills Limited. The outlook is '**Stable**'.

Reaffirmation of the rating reflects performance in line with expectations with modest scale of operations at about Rs. 55 crores, experienced management and comfortable working capital cycle; however, the ratings are constrained by highly leveraged capital structure and susceptibility of profitability to volatility in raw material prices.

Birin Spinning Mills Limited (BSML) is a Coimbatore based company, incorporated in the year 2005 and is promoted by Mr. Rangasamy. It is engaged in the manufacturing and sale of compact yarn of count ranging from 30s to 60s with the spindle capacity of 14400.

Analytical Approach

Acuité has considered the standalone business and financial risk profile of Birin Spinning Mills Limited to arrive at this rating.

Key Rating Drivers

Strengths

- **Experienced management**

The promoters of the company Mr. D Rangaswamy and Mr. Avinashilingam possess more than three decades of experience in the textile industry. Initially started with spindle capacity of about 4800, and over a period ramped up the capacity to the current levels of 14,400 spindles; BSML primarily does compact yarn in counts of 30's to 60's and supplies to fabric manufactures in and around Coimbatore and Kolkata. The company does regular updation of its machinery, which supported in improving its revenues while maintaining the profitability margins over the past three years through FY2019. Acuité believes that Promoters' experience and their relations with stakeholders are expected to support in maintaining its business risk profile over the medium term.

- **Comfortable working capital cycle**

Working capital cycle of the company is comfortable from the last three years through FY2018. Gross current assets stood at 113-117 days during FY2016-FY2018. The company gives credit of around 25 days to its customers and the same reflected in debtor days of around 8-20 days from the last three years under review. Further, the company maintains inventory of 3 months in order to not to fall shortage of raw materials. Acuité believes that with efficient collection mechanism and moderate inventory levels, working capital cycle continues to be at similar levels over the medium term.

Weaknesses

- **Below-average financial risk profile**

Financial risk profile of the company is below-average reflected in high Gearing (Debt to Equity ratio) and total outside liabilities to total networth (TOL/TNW). Its gearing is at 3.15 times as on 31 March, 2018 as against 3.23 times as on 31 March 2017; further, its TOL/TNW is high at 3.71 times in FY2018. This is on

account of modest net worth and high dependence on external funds to fund its capital expenditure and working capital. As on 31 March, 2018 net worth stood at Rs.6.60 crore and total debt stood at Rs.20.79 crore. Further, it has implemented capex of about Rs.8.5 crore in FY2019 for modernization and automation of the plant funded out of term loan of Rs.4.50 crore. Its debt protection metrics of Interest Coverage Ratio (ICR) are moderate at 1.70 times and Debt service coverage ratio is at 1.27 times in FY2018. Acuité believes that modest accruals to repayment obligations, moderate capex to its networth is expected to keep the financial risk profile below-average over the medium term.

• Susceptibility of profitability to volatility in raw material prices

The prices of cotton are highly dependent on agro-climatic conditions and the purchase price of cotton depends on the prevailing demand-supply situation which limits bargaining power with suppliers as well. Acuité believes that BSML should be able to maintain its operating profitability around existing levels notwithstanding the volatility in prices of its key inputs, on the back of its established relationship with suppliers. Further the margins are likely to be sustained in the near future with the introduction of compact yarn which yields relatively better margins.

Liquidity

Liquidity of the company is moderate marked by moderate cash accruals against repayment obligations. It has reported cash accruals of Rs.1.91 crore in FY2018; accruals for FY2019 are expected at a better level at about Rs.3.5 crores, owing to exceptional profit on sale of old machinery. Accruals over the medium term are expected around Rs. 2.5 crores against which its repayment obligations are around Rs. 1.08 – Rs. 1.14 crores over the medium term. Operations are moderately working capital intensive; however, moderate capex of about Rs.8.5 crores in FY2019 has led to high utilisation of its bank lines at about 91 per cent over six months through March 31, 2019. Acuité believes that the liquidity profile is expected to be at moderate levels going forward in the absence of any significant capex plans and cushion in its liquidity and accruals.

Outlook: Stable

ACUITE believes that BSML will maintain stable outlook in the medium term on account of the established presence and extensive experience of the directors in the textile industry. The outlook may be revised to 'Positive' in case the company registers significant growth in its revenue and profitability while improving its capital structure. Conversely, the outlook may be revised to 'Negative' in case of higher than debt-funded capital expenditure or stabilization issues of new machinery, resulting in poor realizations and accruals leading to deterioration of its financial risk profile and liquidity.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	54.54	45.28	40.61
EBITDA	Rs. Cr.	4.82	4.16	3.82
PAT	Rs. Cr.	0.27	0.13	0.09
EBITDA Margin	(%)	8.84	9.19	9.41
PAT Margin	(%)	0.50	0.30	0.22
ROCE	(%)	11.79	10.06	8.49
Total Debt/Tangible Net Worth	Times	3.15	3.23	2.88
PBDIT/Interest	Times	1.70	1.78	2.00
Total Debt/PBDIT	Times	4.25	4.80	4.26
Gross Current Assets (Days)	Days	116	113	105

Status of non-cooperation with previous CRA (if applicable)

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>

Note on complexity levels of the rated instrument
<https://www.acuite.in/criteria-complexity-levels.htm>
Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
25-May-2018	Cash Credit	Long Term	INR 8	ACUITE BB- / Stable (Reaffirmed)
	Term Loan	Long Term	INR 5	ACUITE BB- / Stable (Reaffirmed)
	Secured Overdraft	Long Term	INR 10	ACUITE BB- / Stable (Reaffirmed)
20-Mar-2017	Cash Credit	Long Term	INR 8	ACUITE BB- / Stable (Assigned)
	Secured Overdraft	Long Term	INR 10	ACUITE BB- / Stable (Assigned)
	Term Loan	Long Term	INR 5	ACUITE BB- / Stable (Assigned)

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	11.00	ACUITE BB- /Stable (Reaffirmed)
Term loans	Not Applicable	Not Applicable	Not Applicable	4.55	ACUITE BB- /Stable (Reaffirmed)
Term loans	Not Applicable	Not Applicable	Not Applicable	1.32	ACUITE BB- /Stable (Assigned)
Term loans	Not Applicable	Not Applicable	Not Applicable	5.95	ACUITE BB- /Stable (Assigned)
Term loans	Not Applicable	Not Applicable	Not Applicable	2.08	ACUITE BB- /Stable (Assigned)
Proposed	Not Applicable	Not Applicable	Not Applicable	0.10	ACUITE BB- /Stable (Reaffirmed)

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About Acuité Ratings & Research:

Acuité Ratings & Research Limited (Erstwhile SMERA Ratings Limited) is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI

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