

Press Release

Birin Spinning Mills Limited

November 03, 2020



Rating Upgraded, Assigned and Withdrawn

Total Bank Facilities Rated*	Rs.31.00 Cr.(Enhanced from Rs.25.00 Cr)
Long Term Rating	ACUITE BB-/ Outlook: Stable (Upgraded from ACUITE B+)

* Refer Annexure for details

Rating Rationale

Acuité has upgraded the long term rating to '**ACUITE BB-**' (**read as ACUITE double B minus**) from '**ACUITE B+**' (**read as ACUITE B plus**) on the Rs.23.55 crore bank facilities and has assigned the long term rating of '**ACUITE BB-**' (**read as ACUITE double B minus**) on the Rs.7.45 crore bank facilities of Birin Spinning Mills Limited (BSML). The outlook is '**Stable**'. Further, Acuité has withdrawn the long term rating of '**ACUITE BB-**' (**read as ACUITE double B minus**) on the Rs.8.03 crore bank facilities of BSML.

The rating was earlier downgraded as per the press release dated 8 July, 2020 on account of information risk. However, the company has now cooperated with Acuité for the review.

Incorporated in the year 2005, BSML is engaged primarily in the manufacturing of cotton yarn. The company is based in Tiruppur, Tamil Nadu. The company currently has 15,600 spindles. Alongside manufacturing, the company commenced trading of finished yarn from August 2020. The directors of the company - Mr. Avinashilingam and Mr. Rangasamy have more than three decades of experience in the textile industry.

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of BSML to arrive at this rating.

Key Rating Drivers

Strengths

- **Experienced management and established track record of operations**

BSML is engaged primarily in the manufacturing of cotton yarn for more a decade. The company is promoted by Mr. Avinashilingam and Mr. Rangasamy, who have more than three decades of experience in the textile industry. The top management is ably supported by a well-qualified and experienced team of the second line of management. The promoter's experience in the textile industry has helped the company build a healthy relationship with its suppliers and customers, to ensure a steady raw material supply and large off-take.

Acuité believes that BSML will continue to benefit from the promoter's established presence in the textile industry over the medium term.

Weaknesses

- **Moderate financial risk profile**

BSML's financial risk profile is moderate marked by modest net worth and comfortable debt protection indicators; constrained by high gearing. The net worth stood modest at Rs.7.22 crore as on 31 March 2020 (Provisional) from Rs.6.95 crore as on 31 March 2019. The gearing stood high at 4.18 times as on 31 March 2020 (Provisional) from 4.06 times in the previous year. The total debt of Rs.30.20 crore as on 31 March 2020 (Provisional) includes working capital borrowings of Rs.10.37 crore, long term debt of Rs.16.30 crore and unsecured loans of Rs.3.53 crore. The TOL/TNW stood at 4.83 times as on 31 March 2020 (Provisional) as against 4.43 times as on 31 March 2019. Interest Coverage Ratio (ICR) stood comfortable at 1.72 times in FY2020 (Provisional).

Acuité believes that BSML's financial risk profile will remain moderate over the medium term in the absence of any major debt-funded capex plan.

- **Working capital intensive nature of operations**

BSML's operations are working capital intensive in nature as reflected in its gross current assets (GCA) of

130 days in FY2020 (Provisional) as against 121 days in FY2019. The high GCA days emanates from high inventory days of 117 days for FY2020 (Provisional) as compared to 80 days for FY2019. The debtor days stood at 15 days for FY2020 as compared to 21 days for FY2019. This has led to higher reliance on the working capital borrowings, for which the utilization was around 90 percent for the past six months ended September 2020. These are partially offset by moderate creditor days of 30 days as on 31 March 2020 (Provisional).

Acuité believes that the working capital cycle will continue to be intensive over the medium term.

• Susceptible to changes in input prices and high competition

BSML's profitability is susceptible to changes in the prices of the raw material, i.e. cotton yarn. The prices of cotton are highly dependent on agro-climatic conditions. Besides, cotton prices are fixed by the government through Minimum Support Price (MSP). However, the purchase price depends on the prevailing demand-supply situation, which limits bargaining power with suppliers as well. Further, the company is exposed to intense competition in the highly fragmented textile industry. The company also faces stiff competition from organized and unorganized players in the domestic market.

Liquidity position: Adequate

BSML has adequate liquidity position marked by healthy cash accruals to its maturing debt obligations. The company generated cash accruals of Rs.1.91-2.75 crore during the last three years through FY2018-FY2020, while its maturing debt obligations were in the range of Rs.1.35-2.60 crore over the same period. The operations are working capital intensive marked by Gross Current Asset (GCA) of 130 days in FY2020 (Provisional) compared to 121 days in FY2019. The average working capital limits utilization stood approximately at 90 percent for the past six months ended September 2020. The current ratio stood moderate at 1.26 times as on 31 March, 2020. Acuité believes that going forward; the liquidity position of the company will continue to remain adequate in the medium term.

Rating Sensitivities

- Lower-than-expected revenues and profitability impacting financial risk profile
- Stretch in the working capital cycle or significant debt-funded capital expenditure leading to deterioration in liquidity

Material Covenants

None

Outlook: Stable

Acuité believes BSML will maintain a stable business risk profile over the medium term. The company will continue to benefit from its experienced management and long-standing relations with customers and suppliers. The outlook may be revised to 'Positive' in case the company registers higher-than-expected revenues and profitability, maintaining its financial risk profile. Conversely, the outlook may be revised to 'Negative' in case of a steep decline in the company's revenue or profitability or significant deterioration in the capital structure and liquidity position.

About the Rated Entity - Key Financials

	Unit	FY20 (Provisional)	FY19 (Actual)
Operating Income	Rs. Cr.	58.92	54.11
PAT	Rs. Cr.	0.27	0.35
PAT Margin	(%)	0.45	0.66
Total Debt/Tangible Net Worth	Times	4.18	4.06
PBDIT/Interest	Times	1.72	2.15

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

None

Any other information

None

Applicable Criteria

- Manufacturing Entities: <https://www.acuite.in/view-rating-criteria-59.htm>
- Application of Financial Ratios and Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>
- Default Recognition: <https://www.acuite.in/view-rating-criteria-52.htm>

Note on complexity levels of the rated instrument
<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Upto last three years)

Not Applicable

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
08-July-2019	Cash Credit	Long Term	11.00	ACUITE B+ (Downgraded from ACUITE BB-/ Stable) Issuer not co-operating*
	Term Loan	Long Term	4.55	ACUITE B+ (Downgraded from ACUITE BB-/ Stable) Issuer not co-operating*
	Term Loan	Long Term	1.32	ACUITE B+ (Downgraded from ACUITE BB-/ Stable) Issuer not co-operating*
	Term Loan	Long Term	5.95	ACUITE B+ (Downgraded from ACUITE BB-/ Stable) Issuer not co-operating*
	Term Loan	Long Term	2.08	ACUITE B+ (Downgraded from ACUITE BB-/ Stable) Issuer not co-operating*
	Proposed	Long Term	0.10	ACUITE B+ (Downgraded from ACUITE BB-/ Stable) Issuer not co-operating*
02-May-2019	Cash Credit	Long Term	11.00	ACUITE BB-/ Stable (Reaffirmed)
	Term Loan	Long Term	4.55	ACUITE BB-/ Stable (Reaffirmed)
	Term Loan	Long Term	1.32	ACUITE BB-/ Stable (Assigned)
	Term Loan	Long Term	5.95	ACUITE BB-/ Stable (Assigned)
	Term Loan	Long Term	2.08	ACUITE BB-/ Stable (Assigned)
	Proposed	Long Term	0.10	ACUITE BB-/ Stable (Reaffirmed)
25-May-2018	Cash Credit	Long Term	8.00	ACUITE BB-/ Stable (Reaffirmed)
	Term Loan	Long Term	5.00	ACUITE BB-/ Stable (Reaffirmed)
	Secured Overdraft	Long Term	10.00	ACUITE BB-/ Stable (Reaffirmed)

*the issuer did not co-operate; Based on best available information

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Name of the Bank	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	11.00	Canara Bank	ACUITE BB- /Stable (Upgraded from B+)
Term Loan	June 2018	10.75	June 2026	3.68	Canara Bank	ACUITE BB- /Stable (Upgraded from B+)
Term Loan	Oct-2018	12.05	Oct 2026	1.15	Canara Bank	ACUITE BB- /Stable (Upgraded from B+)
Term Loan	April 2017	10.75	May 2024	1.40	Canara Bank	ACUITE BB- /Stable (Assigned)
Term Loan	May 2014	12.10	April 20221	0.08	Canara Bank	ACUITE BB- /Stable (Assigned)
Term Loan	Feb 2020	11.00	Aug 2027	1.17	Canara Bank	ACUITE BB- /Stable (Assigned)
Working Capital Demand Loan	May 2020	7.65	April 2022	1.10	Canara Bank	ACUITE BB- /Stable (Assigned)
Working Capital Term Loan	June 2020	7.65	May 2024	3.70	Canara Bank	ACUITE BB- /Stable (Assigned)
Term Loan	Jan 2018	10.00	March 2020	5.95	Edelweiss Bank	ACUITE BB- (Withdrawn)
Term Loan	Jan 2018	10.00	March 2020	2.08	Edelweiss Bank	ACUITE BB- (Withdrawn)
Term Loan	March 2020	8.65	Feb 2026	1.20	ICICI Bank	ACUITE BB- /Stable (Upgraded from B+)
Term Loan	March 2020	8.65	Feb 2026	4.63	ICICI Bank	ACUITE BB- /Stable (Upgraded from B+)
Term Loan	March 2020	8.65	Feb 2026	1.39	ICICI Bank	ACUITE BB- /Stable (Upgraded from B+)
Proposed Loan	Not Applicable	Not Applicable	Not Applicable	0.50	Not Applicable	ACUITE BB- /Stable (Upgraded from B+)

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About Acuité Ratings & Research:

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