

Press Release

Birin Spinning Mills Limited

May 27, 2022



Rating Reaffirmed and Upgraded

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	0.15	-	ACUITE A4+ Reaffirmed
Bank Loan Ratings	30.85	ACUITE BB Stable Upgraded	-
Total Outstanding Quantum (Rs. Cr)	31.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has upgraded the long-term rating to '**ACUITE BB**' (read as **ACUITE double B**) from '**ACUITE BB-**' (read as **ACUITE double B minus**) and has reaffirmed the short-term rating of '**ACUITE A4+**' (read as **ACUITE A four plus**) on the Rs.31.00 Cr bank facilities of Birin Spinning Mills Limited (BSML). The outlook is '**Stable**'.

The rating upgrade takes into cognizance the improvement in the company's business risk profile supported by increase in the operating income. The rating also factors the experienced management and long track record of operations of the company. These strengths are, however, offset by the moderate financial risk profile of the company, working capital intensive nature of operations and the competitive industry.

About the Company

Incorporated in the year 2005, Birin Spinning Mills Limited is engaged in manufacturing and sale of cotton yarn. Based in Tirupur, Tamil Nadu, BSML was initially established as a partnership firm in 2002 and later reconstituted to limited company in 2005. The company is headed by Mr. A. Avinashilingam, Mr. D Rangaswamy and Ms. Rupa Popat. Currently, the production capacity of BSML is 16800 spindles.

Analytical Approach

Acuite has considered the standalone financial and business risk profile of Birin Spinning Mills Limited (BSML).

Key Rating Drivers

Strengths

- Long track record of operations and experienced management

BSML has a long standing operations of over two decades. The directors of BSML, Mr. A. Avinashilingam and Mr. D Rangaswamy have an extensive experience of more than three decades in the textile industry. The experience of the partners has resulted in establishing healthy relationships with customers and suppliers and ensuring raw materials supply. Acuité believes that the experienced management and the long track of operations will benefit the company going forward, resulting in growth in the scale of operations.

- **Improving business risk profile buoyed by increase in operating income**

BSML has achieved significant improvement in their revenue generation over the years and has achieved revenues of Rs.92.45 Cr (provisional) in FY22 as compared to revenues of Rs.66.46 Cr in FY21. The growth in top line in FY22 is due to the increase in the capacity utilisation along with the increase in the volume of sales. The operating margin of BSML increased to 12.63 per cent (provisional) in FY22 as compared to 10.67 per cent in FY21. The PAT margin for FY22 rose to 3.41 per cent (provisional) from 1.58 per cent for FY21. The increase in the profitability margin is due to the comparative decrease in the raw material, manufacturing and other costs in FY22. Acuité believes that the going forward, the growth in scale of operations and profitability margins.

Weaknesses

- **Moderate financial risk profile**

The moderate financial risk profile of the company is marked by low albeit improving net worth and comfortable debt protection metrics; constrained by high gearing. The tangible net worth of the company increased to Rs.8.33 Cr as on March 31, 2021 from Rs.7.28 Cr as on March 31, 2020 due to accretion of reserves. The comfortable debt protection metrics is marked by Interest Coverage Ratio at 2.09 times as on March 31, 2021, and Debt Service Coverage Ratio of 1.12 times as on March 31, 2021. However, gearing of the company stood high at 4.30 times as on March 31, 2021 as against 4.16 times as on March 31, 2020, and Total Outside Liabilities/Tangible Net Worth (TOL/TNW) stood at a high level of 5.25 times as on March 31, 2021 as against 4.80 times as on March 31, 2020. Net Cash Accruals/Total Debt (NCA/TD) stood low at 0.10 times as on March 31, 2021. Acuité believes that going forward the financial risk profile will remain moderate over the medium term, in absence of any major debt funded capex plans.

- **Working capital intensive nature of operations**

The working capital intensive nature of operations of the company is marked by Gross Current Assets (GCA) of 154 days as on 31st March 2021 as compared to 128 days as on 31st March 2020. The elongated GCA days are on account of high inventory days. The inventory holding stood at 125 days as on 31st March 2021 as compared to 114 days as on 31st March 2020. The company has to maintain high inventory levels due to acquiring and maintaining the stock of cotton as and when available at reasonable rate. However, the debtor period stood comfortable at 3 days as on 31st March 2021 as compared to 16 days as on 31st March 2020. Acuité believes that the working capital operations of the firm will remain almost at the same levels as evident from efficient collection mechanism and moderate inventory levels over the medium term.

- **Susceptibility 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.

Rating Sensitivities

- Ramp up in scale of operations while improving profitability
- Elongation in working capital cycle
- Improvement in capital structure

Material covenants

None

Liquidity Position: Adequate

The company's liquidity is moderate marked by steady net cash accruals of Rs.3.69 Cr as on March 31, against repayment of debt of Rs.2.90 for the year. The cash and bank balances of the company stood at Rs.5.53 Cr as on March 31, 2021. The current ratio stood comfortable at 1.22 times as on March 31, 2021 as compared to 1.21 times as on March 31, 2020. The company has not availed loan moratorium. The fund based limit is utilised at 61 per cent over FY22. However, the working capital management of the company is intensive in nature marked by Gross Current Assets (GCA) of 154 days in 31st March 2021 as compared to 128 days in 31st March 2020. Acuité believes that going forward the company will maintain adequate liquidity position due to steady accruals.

Outlook: Stable

Acuité believes that the outlook on BSML will remain 'Stable' over the medium term on account of the experienced management and steady business risk profile. The outlook may be revised to 'Positive' in case of significant growth in revenue or operating margins from the current levels. Conversely, the outlook may be revised to 'Negative' in case of a decline in revenue or operating margins, deterioration in financial risk profile or further elongation in its working capital cycle.

Key Financials

Particulars	Unit	FY 21 (Actual)	FY 20 (Actual)
Operating Income	Rs. Cr.	66.46	58.94
PAT	Rs. Cr.	1.05	0.32
PAT Margin	(%)	1.58	0.55
Total Debt/Tangible Net Worth	Times	4.30	4.16
PBDIT/Interest	Times	2.09	1.73

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

ICRA, vide its press release dated April 06, 2020 had denoted the rating of Birin Spinning Mills Limited as 'ICRA A4; ISSUER NOT COOPERATING'.

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- 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>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
12 Jan 2022	Working Capital Demand Loan	Long Term	3.70	ACUITE BB- (Issuer not co-operating*)
	Term Loan	Long Term	1.20	ACUITE BB- (Issuer not co-operating*)
	Proposed Bank Facility	Long Term	0.50	ACUITE BB- (Issuer not co-operating*)
	Cash Credit	Long Term	11.00	ACUITE BB- (Issuer not co-operating*)
	Term Loan	Long Term	1.40	ACUITE BB- (Issuer not co-operating*)
	Term Loan	Long Term	1.39	ACUITE BB- (Issuer not co-operating*)
	Term Loan	Long Term	1.15	ACUITE BB- (Issuer not co-operating*)
	Term Loan	Long Term	1.17	ACUITE BB- (Issuer not co-operating*)
	Working Capital Demand Loan	Long Term	1.10	ACUITE BB- (Issuer not co-operating*)
	Term Loan	Long Term	0.08	ACUITE BB- (Issuer not co-operating*)
	Term Loan	Long Term	4.63	ACUITE BB- (Issuer not co-operating*)
	Term Loan	Long Term	3.68	ACUITE BB- (Issuer not co-operating*)
03 Nov 2020	Term Loan	Long Term	1.40	ACUITE BB- Stable (Assigned)
	Term Loan	Long Term	1.39	ACUITE BB- Stable (Upgraded from ACUITE B+)
	Term Loan	Long Term	5.95	ACUITE BB- (Withdrawn)
	Working Capital Term Loan	Long Term	3.70	ACUITE BB- Stable (Assigned)
	Term Loan	Long Term	0.08	ACUITE BB- Stable (Assigned)
	Term Loan	Long Term	2.08	ACUITE BB- (Withdrawn)
	Term Loan	Long Term	4.63	ACUITE BB- Stable (Upgraded from ACUITE B+)
	Term Loan	Long Term	1.15	ACUITE BB- Stable (Upgraded from ACUITE B+)
	Cash Credit	Long Term	11.00	ACUITE BB- Stable (Upgraded from ACUITE B+)
	Proposed Bank Facility	Long Term	0.50	ACUITE BB- Stable (Upgraded from ACUITE B+)
	Term Loan	Long Term	1.20	ACUITE BB- Stable (Upgraded from ACUITE B+)
	Term Loan	Long Term	3.68	ACUITE BB- Stable (Upgraded from ACUITE B+)
	Term Loan	Long Term	1.17	ACUITE BB- Stable (Assigned)
	Working Capital Demand Loan	Long Term	1.10	ACUITE BB- Stable (Assigned)
		Long		ACUITE B+ (Downgraded and Issuer not

08 Jul 2020	Proposed Bank Facility	Term	0.10	co-operating*)
	Term Loan	Long Term	1.32	ACUITE B+ (Downgraded and Issuer not co-operating*)
	Term Loan	Long Term	4.55	ACUITE B+ (Downgraded and Issuer not co-operating*)
	Term Loan	Long Term	2.08	ACUITE B+ (Downgraded and Issuer not co-operating*)
	Term Loan	Long Term	5.95	ACUITE B+ (Downgraded and Issuer not co-operating*)
	Cash Credit	Long Term	11.00	ACUITE B+ (Downgraded and Issuer not co-operating*)
02 May 2019	Term Loan	Long Term	4.55	ACUITE BB- Stable (Reaffirmed)
	Cash Credit	Long Term	11.00	ACUITE BB- Stable (Reaffirmed)
	Proposed Bank Facility	Long Term	0.10	ACUITE BB- Stable (Reaffirmed)
	Term Loan	Long Term	5.95	ACUITE BB- Stable (Assigned)
	Term Loan	Long Term	2.08	ACUITE BB- Stable (Assigned)
	Term Loan	Long Term	1.32	ACUITE BB- Stable (Assigned)
25 May 2018	Cash Credit	Long Term	8.00	ACUITE BB- Stable (Reaffirmed)
	Term Loan	Long Term	5.00	ACUITE BB- Stable (Reaffirmed)
	Proposed Bank Facility	Long Term	10.00	ACUITE BB- Stable (Reaffirmed)
20 Mar 2017	Cash Credit	Long Term	8.00	ACUITE BB- Stable (Assigned)
	Secured Overdraft	Long Term	10.00	ACUITE BB- Stable (Assigned)
	Term Loan	Long Term	5.00	ACUITE BB- Stable (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Canara Bank	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	0.15	ACUITE A4+ Reaffirmed
Canara Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	10.41	ACUITE BB Stable Upgraded (from ACUITE BB-)
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	3.84	ACUITE BB Stable Upgraded (from ACUITE BB-)
Canara Bank	Not Applicable	Term Loan	Not available	Not available	Not available	16.60	ACUITE BB Stable Upgraded (from ACUITE BB-)

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About Acuité Ratings & Research

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