February 15, 2022

Deepak Spinners Limited: [ICRA]A- (Stable) / [ICRA]A2+ assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Fund Based – Cash Credit	55.00	[ICRA]A- (Stable); assigned
Fund Based – Standby Line of Credit	5.00	[ICRA]A2+; assigned
Fund Based – Export Packing Credit (Interchangeable)^	(15.00)	[ICRA]A2+; assigned
Fund Based – Bill Discounting (Interchangeable)^	(15.00)	[ICRA]A2+; assigned
Fund Based – Term Loan (Covid loan/CCECL)	2.00	[ICRA]A- (Stable); assigned
Fund Based – Term Loan	14.10	[ICRA]A- (Stable); assigned
Non-Fund Based – Letter of Credit	2.00	[ICRA]A2+; assigned
Non-Fund Based – Capex Letter of Credit	10.00	[ICRA]A2+; assigned
Non-Fund Based – Bank Guarantee	3.00	[ICRA]A- (Stable); assigned
Non-Fund Based – Credit Exposure Limit	1.00	[ICRA]A2+; assigned
Total	**92.10**	

**Instrument details are provided in Annexure-1; ^Within the overall fund based working capital limit*

Rationale

The ratings consider Deepak Spinners Limited's (DSL) long operational track record of more than three decades in manufacturing of blended synthetic yarns and its established relationship with customers, which lead to repeat orders, mitigating off-take risks. An improved demand scenario and favourable realisations of synthetic yarns led to healthy operating margins of the company since Q3 FY2021 and are likely to result in a robust growth in its revenue and cash accrual in FY2022. The ratings also draw comfort from DSL's conservative capital structure with a steady decline in its debt level over the last five years and comfortable debt coverage metrics, which are likely to be strengthened by an improvement in the company's profits in the current fiscal. The ratings, however, are constrained by a fragmented structure of the spinning industry, leading to competition among many organised and unorganised players, keeping margins under check. DSL's product-market diversity remains moderate given its presence mainly in the coarse-count yarns segment and a modest share of export sales, notwithstanding higher realisations fetched from exports of relatively value-added products. Besides, the company's profitability and cash flows are likely to remain vulnerable to the cyclicality inherent in the textiles sector and the volatility in crude-oil linked raw material prices.

The Stable outlook on the [ICRA]A- rating reflects ICRA's opinion that DSL's credit profile is likely to remain comfortable despite a likely moderation in the operating margin, going forward, from the currently elevated level. While a capex of around Rs. 50-70 crore envisaged in the near to medium term is unlikely to materially impact the company's liquidity and capital structure, the same is likely to enhance DSL's scale of operations and value addition, going forward.

Key rating drivers and their description

Credit strengths

Long operational track record in manufacturing of blended synthetic yarns – The company's plant at Baddi, Himachal Pradesh commenced operation in 1986. Subsequently, it had set up another plant at Guna, Madhya Pradesh in 1991 and gradually increased capacities of both the plants. Since the beginning, DSL has been involved in manufacturing blended synthetic yarns. A long track record of operation and experience of the promoters in the industry mitigate DSL's business risks.

Established relationship with customers reduces offtake risks – DSL sells its products mainly through dealers and agents. In addition, it directly supplies yarns to a few large players in the apparel/fabric segments. The company's established relationship with its customers fetches repeat orders, reducing off-take risks.

Favourable demand outlook and realisations likely to support revenues and cash accruals in the near to medium term – The company's performance improved significantly in the recent quarters following an operating loss in Q1 FY2021 due to the pandemic-induced disruptions. Buoyant realisations with an upward trend in crude oil prices and favourable conversion margins on the back of a demand recovery led to a healthy operating profitability of around 12-16% in all the quarters since Q3 FY2021. In 9M FY2022, DSL's operating income improved by 37% on a YoY basis, while its operating profitability stood at 12.6% via-s-vis 10.7% in FY2021 and 7.6% in FY2020. ICRA expects favourable demand outlook and realisations to strengthen DSL's revenues and cash accruals in the near to medium term, despite a likely normalisation in the conversion margin, going forward.

Conservative capital structure and comfortable debt coverage metrics – The company's debt level declined gradually over the last five years with repayment of long-term loans and reduction in working capital borrowings. The gearing declined steadily to 0.4 times as on March 31, 2021 from 1.4 times as on March 31, 2017. DSL's debt coverage metrics improved significantly in FY2021, aided by higher profits and reduction in debt, as reflected by an interest coverage of 6.7 times (3.8 times in FY2020), total debt relative to OPBDITA of 1.3 times (2.5 times in FY2020) and net cash accrual relative to total debt of 56% (25% in FY2020). Its interest coverage improved further to 14.2 times in 9M FY2022. A low gearing and healthy profits at an absolute level are likely to keep the company's debt coverage indicators comfortable, going forward.

Credit challenges

Highly fragmented and competitive nature of the industry – The Indian spinning industry is highly fragmented, with the presence of many organised and unorganised players. Competition among the spinners keeps margins under check. Nevertheless, DSL's comfortable capacity utilisation (93% in H1 FY2022) and the presence of captive renewable power sources (solar and biomass based), which partially meets the power requirement of its Guna plant at a cheap rate, positively impact the cost structure. Besides, the company's operational flexibility to supply customised products to its customers renders competitive advantage to an extent.

Moderate product-market diversity – DSL mainly manufactures coarse-count grey and dyed yarns of 8-30 counts. The product profile is largely commoditised despite the presence of some value-added and usage-specific products ('melange', sewing threads etc). The company fetches better realisations from export of relatively value-added products. However, the contribution of exports to DSL's overall revenue remained below 10% in the past few three years.

Exposed to volatility in raw material prices – The company's raw materials mainly comprise staple manmade fibres like polyester, viscose and acrylic fibres, with around 95% share of polyester in the fibre consumption. The raw material prices remain highly correlated to crude oil prices and exhibit significant volatility, which may impact the profitability and cash flows of all the players in the industry, including DSL.

Liquidity position: Adequate

DSL's liquidity is likely to remain **adequate**. Its cash flow from operations stood at around Rs. 33 crore in FY2021 and is likely to remain healthy, going forward. In addition, a sizeable headroom in working capital utilisation, with an undrawn limit of around Rs. 41 crore as of December 2021, is likely to support DSL's liquidity despite a capex of Rs. 50-70 crore, likely to be incurred in the near to medium term and debt repayment obligations of around Rs. 9-10 crore annually till FY2024.

Rating sensitivities

Positive factors – ICRA may upgrade DSL's ratings if its revenues and cash accrual improve significantly on a sustained basis. Specific credit metrics that may lead to an upgrade of the ratings include ROCE above 15% on a sustained basis.

Negative factors – Pressure on DSL's ratings may arise if its revenues and cash flows deteriorate significantly. A sustained increase in total debt/OPBDITA above 2.3 times may also trigger a rating downgrade.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Textiles - Spinning
Parent/Group Support	Not Applicable
Consolidation/Standalone	For arriving at the rating, ICRA has considered the standalone financials of the rated entity.

About the company

Incorporated in 1982 by Mr. Pradip Kumar Daga, Deepak Spinners Limited manufactures blended synthetic spun yarns. The company has two plants at Baddi in Himachal Pradesh and Guna in Madhya Pradesh with a total spinning capacity of around 37,000 metric tonnes per annum. The Baddi and Guna units have 38,016 and 52,848 spindles, respectively. Additionally, the Baddi unit has a dye house. The company mainly produces synthetic yarns of 8-30 counts. The Guna plant has a captive solar power plant of 1 mega-watt (MW) capacity, another captive 3-MW biomass-based power plant and also draws power from a 5-MW solar power plant of a group company.

Key financial indicators (audited)

DSL Standalone	FY2020	FY2021	9M FY2022*
Operating Income (Rs. crore)	461.4	397.2	390.8
PAT (Rs. crore)	14.9	15.7	27.4
OPBDIT/OI (%)	7.6%	10.7%	12.6%
PAT/OI (%)	3.2%	4.0%	7.0%
Total Outside Liabilities/Tangible Net Worth (times)	1.1	0.7	-
Total Debt/OPBDIT (times)	2.5	1.3	-
Interest Coverage (times)	3.8	6.7	14.2

*PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; *Unaudited*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Dec 31, 2021 (Rs. crore)	Date & Rating in	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
					Feb 15, 2022	-	-	-
1	Fund Based – Cash Credit	Long term	55.00	-	[ICRA]A- (Stable)	-	-	-
2	Fund Based – Standby Line of Credit	Short term	5.00	-	[ICRA]A2+	-	-	-
3	Fund Based – Export Packing Credit (Interchangeable)*	Short term	(15.00)	-	[ICRA]A2+	-	-	-
4	Fund Based – Bill Discounting (Interchangeable)*	Short term	(15.00)	-	[ICRA]A2+	-	-	-
5	Fund Based – Term Loan (Covid loan/CCECL)	Long term	2.00	1.33	[ICRA]A- (Stable)	-	-	-
6	Fund Based – Term Loan	Long term	14.10	14.10	[ICRA]A- (Stable)	-	-	-
7	Non-Fund Based – Letter of Credit	Short term	2.00	-	[ICRA]A2+	-	-	-
8	Non-Fund Based – Capex Letter of Credit	Short term	10.00	-	[ICRA]A2+	-	-	-
9	Non-Fund Based – Bank Guarantee	Long term	3.00	-	[ICRA]A- (Stable)	-	-	-
10	Non-Fund Based – Credit Exposure Limit	Short term	1.00	-	[ICRA]A2+	-	-	-

**Within the overall fund based working capital limit*

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long term – Fund Based (Cash Credit)	Simple
Short term – Fund Based (Standby Line of Credit)	Simple
Short term – Fund Based – Interchangeable (Export Packing Credit)*	Simple
Short term – Fund Based – Interchangeable (Bill Discounting)*	Simple
Long term – Fund Based (Term Loan- Covid loan/CCECL)	Simple
Long term – Fund Based (Term Loan)	Simple
Short term – Non-Fund Based (Letter of Credit)	Very simple
Short term – Non-Fund Based (Capex Letter of Credit)	Very simple
Long term – Non-Fund Based (Bank Guarantee)	Very simple
Short term – Non-Fund Based (Credit Exposure Limit)	Very simple

**Within the overall fund based working capital limit*

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analyzing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, is available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN No.	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. Crore)	Current Rating and Outlook
NA	Fund Based – Cash Credit	NA	NA	NA	55.00	[ICRA]A- (Stable)
NA	Fund Based – Standby Line of Credit	NA	NA	NA	5.00	[ICRA]A2+
NA	Fund Based – Export Packing Credit (Interchangeable)*	NA	NA	NA	(15.00)	[ICRA]A2+
NA	Fund Based – Bill Discounting (Interchangeable)*	NA	NA	NA	(15.00)	[ICRA]A2+
NA	Fund Based – Term Loan (Covid loan/CCECL)	May 27, 2020	NA	Apr 30, 2022	2.00	[ICRA]A- (Stable)
NA	Fund Based – Term Loan	Sep 12, 2014	NA	Dec 31, 2024	14.10	[ICRA]A- (Stable)
NA	Non-Fund Based – Letter of Credit	NA	NA	NA	2.00	[ICRA]A2+
NA	Non-Fund Based – Capex Letter of Credit	NA	NA	NA	10.00	[ICRA]A2+
NA	Non-Fund Based – Bank Guarantee	NA	NA	NA	3.00	[ICRA]A- (Stable)
NA	Non-Fund Based – Credit Exposure Limit	NA	NA	NA	1.00	[ICRA]A2+

Source: *Company; *Within the overall fund based working capital limit*

Please click here to view details of lender-wise facilities rated by ICRA

Annexure-2: List of entities considered for consolidated analysis: Not applicable

ANALYST CONTACTS

Jayanta Roy
+91 33 7150 1120
jayanta@icraindia.com

Kaushik Das
+91 33 7150 1104
kaushikd@icraindia.com

Sujoy Saha
+91 33 7150 1184
sujoy.saha@icraindia.com

Sovanlal Biswas
+91 33 7150 1181
sovanlal.biswas@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee
+91 80 4332 6401
jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches