

February 14, 2022

Sharadha Terry Products Private Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term/Short Term – Working Capital facilities	65.00	65.00	[ICRA]A+(Stable)/[ICRA]A1+; reaffirmed
Total	65.00	65.00	

*Instrument details are provided in Annexure-1

Rationale

While reviewing the ratings for the bank facilities of Sharadha Terry Products Private Limited (STPPL), ICRA has taken into consideration the consolidated credit profile of STPPL and its subsidiaries. However, unlike the approach followed in the past, ICRA has not consolidated the operational and financial profiles of The Kadri Mills (Cbe) Private Limited (TKML, a promoter group entity) while evaluating the consolidated credit profile. This change is prompted by the management of STPPL confirming to ICRA that it would not be extending any kind of financial support to TKML, going forward. The aforesaid change does not have a material impact on STPPL's credit profile.

The ratings have been reaffirmed and reflect the expected steady performance of STPPL over the medium term, backed by its strong market position, favourable demand conditions, and its strong financial profile, characterised by a conservative capital structure and robust liquidity with minimal reliance on external debt. STPPL's performance is likely to remain steady in the coming quarters, backed by healthy demand from key customers, with the pandemic-induced lifestyle changes encouraging heightened hygiene and increased stay-at-home. ICRA expects STPPL to register a revenue growth of ~10% in FY2022 and around 6-8% over the medium term. Further, STPPL's operating margins are expected to remain strong at more than 20% in the coming fiscals on the back of healthy value addition in the business, despite an increase in logistics and raw material costs witnessed. With no major debt-funded expenditure likely over the medium term against the strong cash accruals, STPPL is expected to remain net debt negative over the medium term.

The ratings also positively factor in the extensive experience of STPPL's promoters in the textile industry, its established position in the terry towel export segment with its brand, Micro Cotton®, long relationship with renowned retailers in the US and the integrated nature of its operations. The ratings, however, are constrained by an intensely competitive terry towel export segment, which limits pricing flexibility. STPPL's earnings are also vulnerable to the fluctuation in cotton prices and foreign currency movements. Further, its performance is exposed to high product and geographical concentration risks, with the major portion of STPPL's revenues derived from the export of terry towels to the US. STPPL's earnings are also vulnerable to the fluctuation in cotton prices, regulatory policies and foreign currency movements.

The Stable outlook reflects ICRA's opinion that STPPL's performance in the coming quarters will continue to benefit from a favourable demand, its established market position and customer base and strong capitalisation levels.

Key rating drivers and their description

Credit strengths

Established leader in terry towel export market – STPPL is an established manufacturer and exporter of terry towels, with an operational track record of around three decades. The promoters of STPPL have extensive experience in the textile industry. Its Managing Director, Mr. G. Kannappan, has more than four decades of experience in the textile industry.

The company has a long relationship with large and reputed retail chains in the US, which has ensured in getting repeat orders and lent stability to its revenues. Further, favourable demand and an expected shift in sourcing by large retailers from the competing supplier nations to India are likely to support the long-term growth potential of the company.

Integrated nature of operations; established brand – STPPL has integrated capacities with spinning, weaving, processing, dyeing, and captive power generation capabilities. The company markets its terry towel products under its own brand – Micro Cotton® in the export segment that focuses on premium products, aiding in better realisations. Integrated capacities and an established brand presence in premium products resulted in healthy operating margins for the company over the years.

Robust financial profile – STPPL's financial flexibility remains strong, backed by a conservative capital structure and healthy coverage metrics on the back of consistent earnings from operations generated over the years. The leverage indicators have remained comfortable due to the limited reliance on external debt. Further, the financial profile is supported by its strong liquidity position with cash and liquid investments of around Rs. 420 crore available as on March 31, 2021.

Credit challenges

High concentration risks – STPPL's revenues are primarily derived from a single product, terry towels. Its revenues are exposed to high geographical and customer concentration risks. The company's top three customers contributed around 70% to the revenue in FY2021, with its products exported largely to the US. Thus, the revenues remain exposed to the performance of its key customers. However, these risks are mitigated to an extent by the company's established brand position, its long relationship with the top customers, ensuring repeat orders, and efforts undertaken to diversify its customer base.

Limited pricing power – STPPL's earnings are vulnerable to the volatility in raw material prices and exchange rates. Intense competition in the home textiles export market limits the bargaining power of market players as seen in the recent past. The company is also exposed to external risks such as regulations and duty structures across the markets. Nevertheless, healthy margins enjoyed on the back of its integrated manufacturing and presence in the premium segment lend it some ability to absorb the periodical fluctuations in costs.

Liquidity position: Strong

STPPL's liquidity position is expected to remain strong, supported by steady earnings from operations, large cash and liquid investment holdings and adequate unutilised lines of credit. Availability of free cash buffer, including cash reserves, liquid investments and working capital limits together stood at around Rs. 420 crore as on March 31, 2021. The average utilisation of its fund-based limits for the 12-month period ended November 2021 was negligible at less than 4%. Further, STPPL's funding requirements towards capital expenditures is estimated to be minimal over the next 12 months, along with no long-term debt repayment obligations. STPPL's cash accruals are expected to be adequate to meet the funding requirements for expansion and incremental working capital requirements, with the surplus cash reserves lending comfort.

Rating sensitivities

Positive factors – The long-term rating may be upgraded if the scale of operations and earnings register a strong growth on a sustained basis and the business profile becomes more diversified with new customer additions across geographies.

Negative factors – The ratings may be downgraded upon any sustained pressure on the operating performance because of loss of business from any of its key customers or any large debt-funded capex, adversely impacting its capital structure and liquidity position. Specific metrics that ICRA could monitor is the total debt/OPBITDA exceeding 1.0 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in Textile Industry - Spinning Rating Methodology for Entities in Textile Industry - Fabric Making
Parent/Group Support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financial risk profile of STPPL and its subsidiaries. Details of entities considered for consolidation have been mentioned in the annexure.

About the company

Sharadha Terry Products Private Limited (STPPL), established in 1992 by Mr. G. Kannappan, manufactures and markets cotton terry towels and related products, in addition to ring spun yarn. STPPL has vertically integrated spinning, weaving and processing facilities with an in-house spinning capacity of 73,056 spindles and 163 looms. It primarily markets terry towels under its brand Micro Cotton® to reputed customers in the US market.

Key financial indicators (Audited)

STPPL	FY2020	FY2021
Operating Income (Rs. crore)	407.3	387.1
PAT (Rs. crore)	50.7	61.8
OPBDITA/OI (%)	21.6%	26.8%
PAT/OI (%)	12.4%	16.0%
Total Outside Liabilities/Tangible Net Worth (times)	0.1	0.0
Total Debt/OPBDITA (times)	0.5	0.1
Interest Coverage (times)	17.8	51.1

Source: Company; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

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 on March 31, 2021 (Rs. crore)	Date & Rating on		Date & Rating in FY2021		Date & Rating in FY2020		Date & Rating in FY2019	
				Feb 14, 2022	Dec 31, 2021	Sep 24, 2020	-	Mar 20, 2019	Jan 24, 2019		
1 Working Capital Facilities	Long/Short term	65.00	-	[ICRA]A+ (Stable)/ [ICRA]A1+	[ICRA]A+ (Stable)/ [ICRA]A1+	[ICRA]A+ (Stable)/ [ICRA]A1+	-	[ICRA]A+ (Stable)/ [ICRA]A1+	[ICRA]A+ (Stable)/ [ICRA]A1+	[ICRA]A+ (Stable)/ [ICRA]A1+	
2 Unallocated	Long-term	-	-	-	-	[ICRA]A+ (Stable)	-	[ICRA]A+ (Stable)	-	-	
3 Term Loans	Long-term	-	-	-	-	[ICRA]A+ (Stable)	-	[ICRA]A+ (Stable)	-	-	

Source: Company; Amount in Rs. crore

Complexity level of the rated instrument

Instrument	Complexity Indicator
Long-term/Short Term Working capital facilities	Simple

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 / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Working Capital facilities	NA	NA	NA	65.00	[ICRA]A+(Stable)/[ICRA]A1+

Source: Company

Annexure-2: List of entities considered for consolidated analysis:

Company Name	STPPL Ownership	Consolidation Approach
Micro Cotton Inc, USA	100.0%	Full Consolidation
Heramba Holdings Private Limited	100.0%	Full Consolidation
Sri Kumaraguru Holdings Private Limited	100.0%	Full Consolidation
Sri Muka Holdings Private Limited	100.0%	Full Consolidation
Shanmugavadivel Holdings Private Limited	100.0%	Full Consolidation
Vadivelan Holdings Private Limited	100.0%	Full Consolidation
Micro Cotton India LLP	100.0%	Full Consolidation
Home Concepts LLP (formerly Seyon Wind Energy Llp)	100.0%	Full Consolidation

Source: Company

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