February 06, 2023

# Sivaswati Textile Private Limited: Ratings reaffirmed

## Summary of rating action

| Instrument* | Previous Rated Amount (Rs. crore) | Current Rated Amount (Rs. crore) | Rating Action |
|---|---|---|---|
| **Long-term– Term Loan** | 7.00 | 26.32 | [ICRA]BBB(Stable); reaffirmed |
| **Long -term – Fund-based** | 45.00 | 45.00 | [ICRA]BBB(Stable); reaffirmed |
| **Short-term –Non fund Based** | 8.00 | 8.00 | [ICRA]A3+; reaffirmed |
| **Long-term – Unallocated** | 31.22 | 11.90 | [ICRA]BBB (Stable); reaffirmed |
| **Total** | **91.22** | **91.22** | |

**Instrument details are provided in Annexure-1*

## Rationale

The ratings reaffirmation reflects the expected steady performance of Sivaswati Textiles Private Limited (STPL) over the medium term on the back of its established presence and diversified revenue base with location-specific advantages, and a comfortable financial profile, characterised by a conservative capital structure with adequate coverage metrics. STPL's performance had improved in FY2022 on the back of favourable demand conditions, reflected by a 57% growth in revenues and expansion in the operating margin to ~10%. Besides, a sharp increase in cotton prices is likely to adversely impact STPL's revenues and earnings in FY2023 to an extent. However, the overall operating margins are expected to be supported to an extent by the captive solar power generation capacity additions in the current year. STPL's credit profile remains supported by its limited reliance on external debt, with key credit metrics including total debt to operating profits and interest coverage of around 0.9 times and 6.8 times, respectively in FY2022. Given the expected moderation in the operating profits and debt-funded capital expenditure incurred in the current fiscal, ICRA expects STPL's coverage metrics to moderate although are still expected to remain at comfortable levels. The ratings remain constrained by the moderate scale of operations, high working capital requirements in the business, given the seasonality associated with raw material availability and high customer concentration risks. Further, STPL's revenues and earnings remain exposed to availability and price fluctuations of raw materials in an intensely competitive and fragmented industry, which limits its pricing flexibility.

The Stable outlook reflects ICRA's expectations that STPL would continue to benefit from its established presence, a diversified product profile and hopes that it would maintain comfortable debt protection metrics and liquidity position.

## Key rating drivers and their description

### Credit strengths

**Established presence and diversified revenue base** – STPL has an established presence in the textile industry spanning more than two decades, resulting in long relationships with suppliers and customers, driving repeat business. It also enjoys location-specific advantages as the plant is located near the major cotton growing belt of Guntur, Andhra Pradesh, supporting better access to all raw materials and lower logistics costs. Further, STPL can manufacture 100% cotton and mix of polyester viscose-blended spun yarn in the counts ranging from 30's to 60's, providing operational flexibility. The product mix is decided based on the demand outlook, raw material availability and price realisations. Backed by the same, STPL has been able to sustain volumes over the years except for the modest performance in FY2021, limited by intense competition and the pandemic.

**Comfortable financial risk profile –** STPL's financial profile remains comfortable, characterised by a conservative capital structure and adequate coverage indicators, supported by a steady growth in earnings witnessed in the recent past, limiting dependence on external debt levels. Key metrics including total debt to operating profits and interest coverage stood at around 0.9 times and 6.8 times, respectively, in FY2022. Despite the expected moderation in earnings and increased repayment obligations with debt-funded capex in H1 FY2023, STPL's debt protection metrics are expected to moderate from the current levels and are likely to remain at adequate levels.

## Credit challenges

**Moderate scale of operations and concentration risks –** STPL's scale of operations remains moderate, with an operating income of around Rs.275 crore in FY2022, limiting the economies of scale and financial flexibility in a capital-intensive sector. Revenues are also exposed to asset concentration and customer concentration risks, with the top ten customers accounting for ~65% of its total sales. These risks are buffered by STPL's diversified product base, which support its profitability and long relationship with its key customers, which lend some stability to revenues.

**Limited pricing flexibility and moderately high working capital intensity in the business –** STPL's earnings remain exposed to volatility in key raw material prices as it has relatively limited pricing flexibility in a fragmented industry with intense competition from many organised and unorganised players. Further, STPL's working capital intensity has been moderately high due to inventory stocking undertaken during the cotton season given the seasonality associated with raw material availability.

## Liquidity position: Adequate

STPL's liquidity position is expected to remain adequate, supported by steady earnings and adequate unutilised lines of credit. The free cash and bank balances and the buffer available in the working capital limits utilised together stood at Rs.13 crore as on December 31, 2022. The company has repayment obligations of Rs.4-5 crore over the next two years and the cash accruals are expected to be sufficient to meet the same. The company's accruals from operations are expected to be comfortable in the range of ~Rs.12 crore per annum in the medium term, supported by the healthy revenues and earnings expected for the entity The average utilisation of fund-based limits stood at 38% of the sanctioned limits for the last 12 months ending December 2022.

## Rating sensitivities

**Positive factors –** STPL's ratings may be upgraded if the company registers a sustained healthy growth in revenues and improves its profitability, while maintaining adequate debt protection metrics and liquidity position.

**Negative factors –** Pressure on STPL's ratings could arise if there is a sustained pressure on its operating performance or upon any elongation of its working capital cycle, which would adversely impact its debt protection metrics and liquidity position. Any sizeable incremental investments or loans extended to Group companies, which would adversely impact its liquidity position, could also lead to ratings downgrade. Specific credit metrics, which can lead to ratings downgrade, include DSCR of less than 1.6 times on a sustained basis.

## Analytical approach

| Analytical Approach | Comments |
|---|---|
| **Applicable Rating Methodologies** | Corporate Credit Rating Methodology<br>Rating Methodology for Entities in the Textiles Industry -Spinning |
| **Parent/Group Support** | Not Applicable |
| **Consolidation/Standalone** | The ratings are based on the standalone financial statements of the rated entity. |

## About the company

STPL, incorporated in 2005, manufactures cotton, polyester, viscose, polyester cotton and polyester viscose spun yarn. The company has a spinning mill in Guntur district of Andhra Pradesh with an installed capacity of 60,624 spindles. STPL started operations with manufacturing of 100% cotton yarn. However, STPL diversified its product portfolio in FY2007 with the manufacturing of polyester-based yarn. STPL manufactures 30's to 60's count of combed and compact yarn.

### Key financial indicators (audited)

| STPL | FY2021 | FY2022 |
|---|---|---|
| **Operating Income (Rs. crore)** | 176.3 | 276.6 |
| **PAT (Rs. crore)** | 5.5 | 13.6 |
| **OPBDITA/OI (%)** | 8.9% | 10.2% |
| **PAT (%)** | 3.1% | 4.9% |
| **Total Outside Liabilities/Tangible Net Worth (times)** | 0.7 | 0.6 |
| **Total Debt/OPBDITA (times)** | 2.6 | 0.9 |
| **Interest Coverage (times)** | 3.5 | 6.8 |
| **DSCR** | 3.0 | 5.2 |

*Source: STPL*

*PAT: Profit after Tax; OPBDITA: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: Return on Capital Employed; DSCR: Debt Service Coverage Ratio*

### Status of non-cooperation with previous CRA: Not applicable

### Any other information: None

## Rating history for past three years

| | Instrument | Current Rating (FY2023) | | | | Chronology of Rating History for the past 3 years | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | Type | Amount Rated (Rs. crore) | Amount Outstanding as on September 30, 2022 (Rs. crore) | Date & Rating in | Date & Rating in FY2022 | Date & Rating in FY2021 | | Date & Rating in FY2020 |
| | | | | | February 06, 2023 | January 06, 2022 | November 18, 2020 | September 10,2020 | January 02, 2020 |
| 1 | Cash Credit | Long-term | 45.00 | - | [ICRA]BBB (Stable) | [ICRA]BBB (Stable) | [ICRA]BBB-(Stable); Removed from ISSUER NOT COOPERATING | [ICRA]BBB-(Stable); ISSUER NOT COOPERATING* | [ICRA]BBB- (Positive) |
| 2 | Term Loan | Long-term | 26.32 | 26.32 | [ICRA]BBB (Stable) | [ICRA]BBB (Stable) | - | - | - |
| 3 | Non-fund based | Short-term | 8.00 | - | [ICRA]A3+ | [ICRA]A3+ | [ICRA]A3; Removed from ISSUER NOT COOPERATING | [ICRA]A3; ISSUER NOT COOPERATING* | [ICRA]A3 |
| 4 | Unallocated | Long-term | 11.90 | - | [ICRA]BBB (Stable) | [ICRA]BBB (Stable) | [ICRA]BBB-(Stable); Removed from ISSUER NOT COOPERATING | [ICRA]BBB-(Stable); ISSUER NOT COOPERATING* | [ICRA]BBB- (Positive) |

## Complexity level of the rated instruments

| Instrument | Complexity Indicator |
|---|---|
| Long-term– Term Loan | Simple |
| Long -term – Fund Based | Simple |
| Short -term –Fund Based | Very Simple |
| Long Term– Unallocated | Not Applicable |

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 analysing 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: click here

### Annexure-1: Instrument details

| ISIN | Instrument Name | Date of Issuance / Sanction | Coupon Rate | Maturity Date | Amount Rated (Rs. crore) | Current Rating and Outlook |
|---|---|---|---|---|---|---|
| NA | Term Loan | FY2021-FY2023 | NA | FY2026-FY2028 | 26.32 | [ICRA]BBB (Stable) |
| NA | Long term fund based | - | NA | - | 45.00 | [ICRA]BBB (Stable) |
| NA | Short term Non fund based | - | NA | - | 8.00 | [ICRA]A3+ |
| NA | Unallocated Limits | - | NA | - | 11.90 | [ICRA]BBB (Stable) |

***Source:*** *Company*

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

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## 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.

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