May 11, 2023

# Sri Nukala Rama Koteswara Rao Textiles Private Limited: Ratings reaffirmed and removed from the Issuer Not Cooperating category

## Summary of rating action

| Instrument^ | Previous Rated Amount (Rs. crore) | Current Rated Amount (Rs. crore) | Rating Action |
|---|---|---|---|
| **Long Term – Fund Based - Term Loan** | 9.50 | 9.50 | [ICRA] BB+(Stable); Ratings reaffirmed and removed from the 'Issuer Not Cooperating' category |
| **Long Term – Fund Based - Cash Credit** | 50.00 | 50.00 | |
| **Short Term – Fund Based- Seasonal Cash Credit** | 25.00 | 25.00 | [ICRA] A4+; Ratings reaffirmed and removed from the 'Issuer Not Cooperating' category |
| **Long-term/Short-term - Unallocated** | 7.50 | 7.50 | [ICRA]BB+(Stable)/[ICRA]A4+; Ratings reaffirmed and removed from the 'Issuer Not Cooperating' category |
| **Total** | **92.00** | **92.00** | |

^Instrument details are provided in Annexure-1

## Rationale

ICRA has removed the ratings assigned to the bank facilities of Sri Nukala Rama Koteswara Rao Textiles Private Limited (SKTPL) from the Issuer Not Cooperating category and reaffirmed the ratings at [ICRA]BB+(Stable)/[ICRA]A4+. ICRA had earlier reviewed the ratings and moved them to the Issuer Not Cooperating category in February 2023 due to non-payment of fee. However, the entity has now started cooperating and ICRA will continue to monitor the ratings assigned in accordance with its rating agreement with SKTPL.

The ratings reaffirmation reflects STPL's deterioration in performance in FY2023 owing to modest demand conditions across domestic and export markets and firm raw material prices in H1 FY2023. The company is estimated to report a sharp decline in revenues (around 45%) in FY2023, which results in a reduction in its cash accruals to around Rs.15 crore from Rs. 30.7 crore in FY2022. Moreover, on account of an increase in the receivable days, the working capital intensity has deteriorated to 30.7% (as per 10M FY2023 provisional numbers submitted by the management) from 16.7% in FY2022. SKTPL's coverage metrics are estimated to deteriorate to a modest level with an expected debt service coverage ratio (DSCR) of 2.8 times and Total debt/operating profits of 4.5 times in FY2023 because of lower revenues. Further, in 10M FY2023, SKTPL had invested ~Rs.14 crore in the Group company and repaid unsecured loans worth Rs. 12.5 crore, putting additional pressure on cash flows. Besides, intense competition in the business limits its pricing flexibility and exposes earnings to fluctuations in raw material prices and exchange rates. Nonetheless, the ratings positively consider the established presence of SKTPL in the yarn exports segment, captive power generation capacity, which limits power costs, and its proximity to cotton-growing areas.

The Stable outlook on the long-term rating reflects ICRA's opinion that SKTPL's performance will continue to be supported by its established track record with a stable customer base in the export segment and its proximity to cotton growing areas, which along with captive power generation, is likely to support its operating profits.

## Key rating drivers and their description

### Credit strengths

**Established track record and proximity to cotton-growing areas –** SKTPL has a long operational track record of over two decades in the textile industry, resulting in established relationship with customers, which lends stability to volumes, as witnessed over the years. It also enjoys location-specific advantages as the plant is located near the major cotton growing belt of Guntur, Andhra Pradesh, resulting in better access to all raw materials and lower logistics costs.

**Improvement in debt coverage metrics and net worth –** SKTPL's revenues and earnings have witnessed a healthy improvement in FY2022 on the back of favourable demand and better price realisations. Despite the fall in revenues and earnings in FY2023, the debt coverage metrics are expected to remain at adequate level over the medium term. The overall performance, going forward, would benefit from the solar capacity added in the recent past. Besides, existing captive windmill capacity would meet a sizeable portion of the captive power requirements and support its operating profits.

### Credit challenges

**Moderate scale of operation on account of intense competition in a highly fragmented yarn market –** The scale of operation continues to remain moderate with an operating income of ~Rs.320 crore in FY2023. With reduction of revenues, cash accruals are expected to moderate to Rs.14-15 crore in FY2023 against Rs.30.7 crore in FY2022. SKTPL operates in an intensely competitive and commoditised yarn industry, characterised by low product differentiation and a fragmented industry structure, which restrict its pricing flexibility. Thus, the earnings of market players remain exposed to the volatility in raw material prices and exchange rates. While the back-to-back hedging limits the forex risks, SKTPL's contribution levels have been constrained by the fluctuations in cotton prices in the past. Further, the overall profitability in the business remains constrained by the low value addition in the trading segment.

**Working capital intensive operations –** The requirement of stocking cotton during the harvest season makes the operations working capital intensive and exposes its profitability to fluctuations in cotton prices. High trade receivable in the current fiscal resulted in an elongated working capital cycle.

### Liquidity position: Adequate

SKTPL's liquidity position is expected to remain adequate, supported by the unutilised lines of credit along with the earnings from operations. The company is estimated to generate cash accruals of around Rs.14-15 crore in FY2023 against moderate repayment obligations and low capital expenditure combined of less than Rs.1 crore in FY2024. Despite the firm working capital requirements in the business, its cash flows are anticipated to remain adequate on the back of the buffer enjoyed in its working capital limits.

### Rating sensitivities

**Positive factors –** ICRA could upgrade SKTPL's ratings if there is a sustained growth in its scale of operations and improvement in profitability, which in turn would improve its debt protection metrics and liquidity position on a sustained basis.

**Negative factors –** Pressure on SKTPL's ratings may arise if there is sustained pressure on earnings or a deterioration in the working capital cycle, which would adversely impact the coverage metrics and liquidity position of the company. The specific credit metric for ratings downgrade includes an interest cover below 2.5 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

Incorporated in 1999, SKTPL has two spinning mills in Chebrolu (Guntur district) and Rajamundry districts of Andhra Pradesh with a combined capacity of 53,880 spindles. The company manufactures and trades in cotton yarn. The promoter has more than 20 years of experience in the cotton industry.

### Key financial indicators (Audited)

| SKTPL Standalone | FY2021 | FY2022 | 10M FY2023* |
|---|---|---|---|
| **Operating Income (Rs. crore)** | 388.8 | 595.7 | 246.0 |
| **PAT (Rs. crore)** | 2.7 | 29.4 | 8.6 |
| **OPBDITA/OI (%)** | 3.1% | 7.2% | 7.6% |
| **PAT (%)** | 0.7% | 4.9% | 3.5% |
| **Total Outside Liabilities/Tangible Net Worth (times)** | 3.7 | 1.2 | 1.1 |
| **Total Debt/OPBDITA (times)** | 11.2 | 2.0 | 3.6 |
| **Interest Coverage (times)** | 1.7 | 6.9 | 9.9 |
| **DSCR (times)** | 1.6 | 4.0 | 3.6 |

*Source: SKTPL *Provisional*

*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

<table>
<tr><th rowspan="3"></th><th rowspan="3">Instrument</th><th colspan="4">Current Rating (FY2024)</th><th colspan="4">Chronology of Rating History for the past 3 years</th></tr>
<tr><th rowspan="2">Type</th><th rowspan="2">Amount Rated</th><th rowspan="2">Amount Outstanding (Rs. crore) as on 31.01.2023</th><th>Date & Rating in FY2024</th><th colspan="2">Date & Rating in FY2023</th><th>Date & Rating in FY2022</th><th>Date & Rating in FY2021</th></tr>
<tr><th>11-May-23</th><th>30-Mar-23</th><th>01-Mar-23</th><th>31-Mar-22</th><th>23-Dec-20</th></tr>
<tr><td>1</td><td>Term Loan</td><td>Long Term</td><td>9.50</td><td>7.09</td><td>[ICRA]BB+ (Stable)</td><td>[ICRA]BB+ (Stable) ISSUER NOT COOPERATING</td><td>[ICRA]BBB- (Stable) ISSUER NOT COOPERATING</td><td>[ICRA]BBB- (Stable)</td><td>[ICRA]BB+ (Stable)</td></tr>
<tr><td>2</td><td>Cash Credit</td><td>Long Term</td><td>50.00</td><td>-</td><td>[ICRA]BB+ (Stable)</td><td>[ICRA]BB+ (Stable) ISSUER NOT COOPERATING</td><td>[ICRA]BBB- (Stable) ISSUER NOT COOPERATING</td><td>[ICRA]BBB- (Stable)</td><td>[ICRA]BB+ (Stable)</td></tr>
</table>

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| 3 | Fund Based - Seasonal Cash Credit | Short Term | 25.00 | - | [ICRA]A4+ | [ICRA]A4+ ISSUER NOT COOPERATING | [ICRA]A3 ISSUER NOT COOPERATING | [ICRA]A3 | [ICRA]A4+ |
| 4 | Unallocated Limit | Long Term/ Short Term | 7.50 | - | [ICRA]BB+ (Stable)/ [ICRA]A4+ | [ICRA]BB+ (Stable)/ [ICRA]A4+ ISSUER NOT COOPERATING | [ICRA]BBB- (Stable)/ [ICRA]A3 ISSUER NOT COOPERATING | [ICRA]BBB- (Stable)/ [ICRA]A3 | [ICRA]BB+ (Stable)/ [ICRA]A4+ |

## Complexity level of the rated instruments

| Instrument | Complexity Indicator |
|---|---|
| Fund-based-Term Loan | Simple |
| Fund-based- Cash Credit | Simple |
| Short Term - Fund-based – Seasonal Cash Credit | Simple |
| Long-term/ Short-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 Loans | FY2019-FY2022 | - | FY2024-FY2028 | 9.50 | [ICRA]BB+ (Stable) |
| NA | Cash Credit | - | - | - | 50.00 | [ICRA]BB+ (Stable) |
| NA | Fund Based-Seasonal Cash Credit | - | - | - | 25.00 | [ICRA]A4+ |
| NA | Unallocated Limit | - | - | - | 7.50 | [ICRA]BB+ (Stable)/ [ICRA]A4+; |

***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.

For more information, visit www.icra.in

## ICRA Limited

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