August 22, 2024

Sri Nukala Rama Koteswara Rao Textiles Private Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term - Fund Based- Cash Credit	50.00	50.00	[ICRA]BB+(Stable); reaffirmed
Long term - Fund based - Term Loan	9.50	6.17	[ICRA]BB+(Stable); reaffirmed
Short term – Fund based – Seasonal Cash Credit	25.00	25.00	[ICRA]A4+; reaffirmed
Long term / Short term - Unallocated facilities	7.50	10.83	[ICRA]BB+(Stable)/[ICRA]A4+; reaffirmed
Total	**92.00**	**92.00**	

**Instrument details are provided in Annexure-I*

Rationale

The ratings reaffirmation for Sri Nukala Rama Koteswara Rao Textiles Private Limited (SKTPL) considers an expected improvement in the company's operating profitability in FY2025, following a moderation witnessed in FY2024 due to weak domestic demand, which resulted in lower realisations. Although revenues increased by 73.5% on a YoY basis to Rs. 543.2 crore in FY2024 (provisional), its operating margins moderated by 238 bps to 3.4%. Despite lower realisations, the company increased its traded export volumes at lower margins to cover its fixed overheads, which led to an increase in revenues. The decline in the operating margins and increase in interest expenses (due to rise in working capital borrowings) resulted in net margins moderating to 0.5% in FY2024 from 2.0% in FY2023. The ratings continue to be supported by the entity's established track record, and the entity's proximity to cotton growing areas. Also, ~40% of its power requirement is met from captive sources, which supports its profitability.

The ratings, however, remain constrained by weak debt coverage indicators and working capital intensive operations. ICRA notes that there had been a significant increase in contingent liability to Rs. 75.2 crore due to corporate guarantee worth Rs.75 crore extended to Kshema Capital Private Limited. Crystallisation of the contingent liability would adversely impact the liquidity profile of SKTPL and the same will be a key monitorable. Total debt to operating profit and interest coverage ratios moderated to 10.3 times and 1.9 times, respectively in FY2024 compared to 8.8 times and 3.7 times, respectively in FY2023. The company is planning to add an 11.5-MW solar power plant in FY2025, which is being funded through term loan of Rs. 35 crore and the balance through promoter's loan. Though the debt coverage indicators are expected to moderate over the near term, the cost savings accruing from addition of the solar plant are expected to improve its operating profitability over the medium term. The ratings also remain constrained because of its moderate scale of operations amid intense competition, which limits its pricing flexibility. Further, the ratings remain exposed to fluctuations in raw material prices and volatility in exchange rates.

The Stable outlook on the long-term rating reflects ICRA's expectation that SKTPL is likely to improve its earnings and coverage metrics. Further, the outlook underlines ICRA's expectation that the entity's incremental capex, if any, to further increase the capacity will be funded in a manner that it is able to durably maintain its debt protection metrics commensurate with the existing ratings.

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.

Captive power generation capacity limits power costs – SKTPL has a 2-MW windmill and 4-MW solar power plant located at Chebrolu (Guntur district). Around 40% of its power requirement is met from these captive sources at present, while the balance requirements are met through purchases from the state electricity grid. To further reduce its power costs, the entity is planning to install a 11.5-MW solar power plant in FY2025, which is expected to be commissioned by March 2025. Post the addition of planned solar capacities, the entity is expected to meet more than 90% of its power requirement from these captive sources. SKTPL's proposed expansion and existing captive power generation capacities will reduce power costs and increase operating profitability over the medium term.

Credit challenges

Earnings exposed to fluctuation in raw material prices – 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. Further, the overall profitability in the business remains constrained by the low value addition in the trading segment.

Large debt-funded capex expected to weaken coverage indicators – SKTPL plans to set up a 11.5-MW solar power plant in FY2025 at a cost of Rs. 50 crore, funded through term debt of Rs. 35 crore and promoter loans. ICRA has considered SKTPL's standalone financials while adjusting its debt for the Corporate Guarantee extended to Kshema Capital Private Limited for Rs.75 crore. Owing to an increase in working capital borrowing and a reduction in the operating margins, the total debt to operating profit and interest cover ratios moderated to 10.3 times and 1.9 times, respectively in FY2024. Further, the planned debt-funded capex would result in further moderation in the entities' coverage metrics over the near term. While the debt coverage indicators are expected to moderate over the near term, cost savings accruing from addition of the solar power plant is expected to improve its operating profitability over the medium term.

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. 10 crore in FY2025 against moderate repayment obligations of Rs. 1.6 crore. In FY2025, there is a planned capital expenditure of Rs. 50 crore, proposed to be funded by debt and promoter loans in the ratio of 75:25. Financial closure for the proposed capital expansion is pending. SKTPL's promoters have indicated a funding support of Rs. 15-20 crore towards proposed installation of a solar power plant.

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 the liquidity position of the company. 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 Textiles - Spinning
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered SKTPL's standalone financials while adjusting its debt for the CG of Rs.75 crore extended to the Kshema Capital Private Limited.

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 Rajahmundry unit has a total capacity of 21,600 spindles while the Chebrolu unit has 31,680 spindles. The company also has 2-MW windmill and 4-MW solar power plant for meeting its captive power requirements. The company manufactures and trades in cotton yarn.

Key financial indicators

SKTPL	FY2023	FY2024*
Operating income	313.2	543.2
PAT	6.1	2.8
OPBDIT/OI	5.8%	3.4%
PAT/OI	2.0%	0.5%
Total outside liabilities/Tangible net worth (times)	2.4	2.6
Total debt/OPBDIT (times)	8.8	10.3
Interest coverage (times)	3.7	1.9

*Source: Company, ICRA Research; * Provisional numbers; All ratios as per ICRA's calculations; Amount in Rs. Crore 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 (FY2025)			Chronology of rating history for the past 3 years			
		Type	Amount rated (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023		Date & rating in FY2022
				Aug 22, 2024	May 11, 2023	Mar 30, 2023	Mar 01, 2023	Mar 31, 2022
1	Cash credit	Long Term	50.00	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable) ISSUER NOT COOPERATING	[ICRA]BBB- (Stable) ISSUER NOT COOPERATING	[ICRA]BBB- (Stable)
2	Term loan	Long Term	6.17	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable) ISSUER NOT COOPERATING	[ICRA]BBB- (Stable) ISSUER NOT COOPERATING	[ICRA]BBB- (Stable)

3	**Fund based-Seasonal cash credit**	Short term	25.00	**[ICRA]A4+**	**[ICRA]A4+**	**[ICRA]A4+ ISSUER NOT COOPERATING**	**[ICRA]A3 ISSUER NOT COOPERATING**	**[ICRA]A3**
4	**Unallocated**	Long Term/ Short Term	10.83	**[ICRA]BB+ (Stable)/ [ICRA]A4+**	**[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**

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 are available on ICRA's website: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loans	FY2022	-	FY2028	6.17	[ICRA]BB+ (Stable)
NA	Cash Credit	-	-	-	50.00	[ICRA]BB+ (Stable)
NA	Fund Based-Seasonal Cash Credit	-	-	-	25.00	[ICRA]A4+
NA	Unallocated Limit	-	-	-	10.83	[ICRA]BB+ (Stable)/ [ICRA]A4+;

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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