

May 06, 2021

## Shri Vasanthraj Textiles Private Limited: Rating upgraded and withdrawn

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Cash Credit	3.00	3.00	[ICRA]B+ (Stable); upgraded from [ICRA]B (Stable) and withdrawn
Long-term – Term Loan	1.10	1.03	[ICRA]B+ (Stable); upgraded from [ICRA]B (Stable) and withdrawn
Long-term - Unallocated	3.90	3.97	[ICRA]B+ (Stable); upgraded from [ICRA]B (Stable) and withdrawn
<b>Total</b>	<b>8.00</b>	<b>8.00</b>	

\*Instrument details are provided in Annexure-1

### Rationale

The rating upgrade of Shri Vasanthraj Textiles Private Limited (Vasanthraj) reflects the improvement in its operating performance and liquidity position in the recent quarters. The same is on the back of recovery in demand, coupled with improved working capital requirements with change in product profile from cotton yarn to blended yarn. Despite the said improvement, the company's financial risk profile remains moderate constrained by high leverage indicators and modest coverage indicators. However, the rating factors in the experience of the promoters in the business, which lends stability to its volumes as witnessed over the years. Nevertheless, the rating is constrained by the intense competition in the fragmented domestic spinning industry, which limits Vasanthraj's pricing flexibility and exposes its earnings to fluctuations in raw material prices as witnessed in the recent quarters.

The rating for the bank facilities of Vasanthraj has been withdrawn at the request of the company and based on the no objection certificate received from the lender. The same is in accordance with ICRA's policy on withdrawal and suspension.

### Key rating drivers and their description

#### Credit strengths

**Experienced promoters; recent shift to blended yarn likely to limit working capital requirements** – The company's promoters have over a decade of experience in the textile industry, resulting in established relationship with customers, which lends stability to volumes as witnessed over the years. It has also changed its product profile from cotton yarn to blended yarn in the recent fiscals. This has, further, resulted in demand stability, limited fluctuations in raw material prices and working capital requirements.

#### Credit challenges

**Modest financial profile characterised by high leverage indicators** – The capital structure remained leveraged on the back of working capital requirements in the business owing to moderately high debt levels and low net worth base. Consequently, the coverage indicator remained weak, with TD/OPBITDA of 5.0 times and 5.0 times and TOL/TNW of 2.3 times and 2.3 times in FY2020 and 9M FY2021 respectively. However, its DSCR is expected to remain adequate, despite the proposed near-term debt-funded capital expenditure, supported by the earnings.

**Small scale of operations amid intense competition** – The company's scale of operations has remained small over the years as witnessed from revenue of Rs. 21.0 crore and Rs. 19.6 crore in FY2019 and FY2020 respectively. Moreover, the spinning industry is highly fragmented with presence of numerous small to mid-sized players. Thus, its small scale of operations amid

stiff competition limits its bargaining power and exerts pressure on its margins, which are exposed to fluctuations in raw material prices.

## Liquidity position: Adequate

The company's liquidity position has improved on the back of better earnings in the recent quarters, coupled with realisation of loans extended to its group company and better working capital cycle. The same has resulted in cash buffer of Rs. 2.0 crore as on December 31, 2020, which includes free cash reserves and unutilised lines of credit. The cash buffer and expected cash accruals of Rs. 0.7 crore in the near term is likely to support the debt repayment of Rs. 0.3 crore in FY2022 and the margin money requirement for the ongoing debt-funded capital expenditure.

## Rating sensitivities

**Positive factors** – Sustained strong growth in revenues and earnings, coupled with better working capital cycle, which would result in an improvement in credit metrics and liquidity position is likely to result in a rating upgrade in absence of the rating withdrawal.

**Negative factors** – Sustained pressure on revenues or earnings, or sharp elongation of the working capital cycle or any large debt-funded capital expenditure or sizeable outflow in the form of loans and advances to Group entities, which could adversely impact the liquidity position and credit metrics of the company may result in a rating downgrade in absence of the rating withdrawal. Specific credit metrics for a rating downgrade include DSCR less than 1.1 times on a sustained basis.

## Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">Rating Methodology for Entities in the Textiles Industry - Spinning</a> <a href="#">Policy on Withdrawal of Credit Ratings</a>
Parent/Group Support	Not Applicable
Consolidation/Standalone	For arriving at the rating, ICRA has considered the standalone financial statements of Shri Vasanthraj Textiles Private Limited.

## About the company

Shri Vasanthraj Textiles Private Limited was incorporated in 1992 and manufactures cotton polyester yarn of the fine count range of 60's. Its spinning mill is in R. Vadipatti in Tamil Nadu and has a spindle capacity of 14,400 spindles. It is a closely-held company managed by Mr. Pradeep Sundar, who is also the Director of V.P.S Textiles (India) Private Limited, which is into the same line of business.

## Key financial indicators (audited)

Prabha Industries	FY2019	FY2020
Operating Income (Rs. crore)	21.0	19.6
PAT (Rs. crore)	0.7	0.3
OPBDIT/OI (%)	7.5%	4.6%
RoCE (%)	12.2%	8.3%
Total Outside Liabilities/Tangible Net Worth (times)	6.1	2.3
Total Debt/OPBDIT (times)	5.0	5.0
Interest Coverage (times)	3.2	2.2
DSCR (times)	2.2	1.4

Source: Company

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net Worth + Deferred Tax Liability - Capital Work in Progress); DSCR: (PBIT + Mat Credit Entitlements - Fair Value Gains through P&L - Non-cash Extraordinary Gain/Loss)/(Interest + Repayments made during the Year)

## 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 FY2022	Date & Rating in FY2021	Date & Rating in FY2020		Date & Rating in FY2019
							May 06, 2021	-	
1	Cash Credit	Long term	3.00	2.50	[ICRA]B+(Stable); withdrawn	-	[ICRA]B (Stable)	[ICRA]C	-
2	Term Loan	Long term	1.03	1.03	[ICRA]B+(Stable); withdrawn	-	[ICRA]B (Stable)	[ICRA]C	-
3	Unallocated Limits	Long term	3.97	-	[ICRA]B+(Stable); withdrawn	-	[ICRA]B (Stable)	[ICRA]C	-

Source: Company

## Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website [click here](#)

**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	Cash Credit	-	-	-	3.00	[ICRA]B+ (Stable); withdrawn
NA	Term Loan	Nov 2020	-	Nov 2026	1.03	[ICRA]B+ (Stable); withdrawn
NA	Unallocated limits	-	-	-	3.97	[ICRA]B+ (Stable); withdrawn

*Source: Company*

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

Not applicable

## ANALYST CONTACTS

**Jayanta Roy**

+91 33 7150 1120

[jayanta@icraindia.com](mailto:jayanta@icraindia.com)

**Pavethra Ponniah**

+91 44 4596 4314

[pavethrap@icraindia.com](mailto:pavethrap@icraindia.com)

**Balaji M**

+91 44 4596 4317

[balaji.m@icraindia.com](mailto:balaji.m@icraindia.com)

**Dharanija R**

+91 44 4297 4311

[dharanija.r@icraindia.com](mailto:dharanija.r@icraindia.com)

## RELATIONSHIP CONTACT

**Jayanta Chatterjee**

+91 80 4332 6401

[jayantac@icraindia.com](mailto:jyantac@icraindia.com)

## MEDIA AND PUBLIC RELATIONS CONTACT

**Ms. Naznin Prodhani**

Tel: +91 124 4545 860

[communications@icraindia.com](mailto:communications@icraindia.com)

## Helpline for business queries

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

[info@icraindia.com](mailto: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](http://www.icra.in)

## ICRA Limited



### Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001

Tel: +91 11 23357940-45



### Branches



© Copyright, 2021 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website [www.icra.in](http://www.icra.in) or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.