

December 05, 2022

## Laxmi Technical Textile Private Limited: [ICRA]A-(CE) (Negative)/[ICRA]A2+(CE) rating withdrawn; and fresh rating of [ICRA]BBB (Stable)/[ICRA]A3+ assigned

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term fund based – Cash Credit facilities	9.50	9.50	[ICRA]A-(CE) (Negative) withdrawn; [ICRA]BBB (Stable) assigned simultaneously
Long-term fund based – Term Loans	2.47	2.47	[ICRA]A-(CE) (Negative) withdrawn; [ICRA]BBB (Stable) assigned simultaneously
Long-term non-fund based	1.00	1.00	[ICRA]A-(CE) (Negative) withdrawn; [ICRA]BBB (Stable) assigned simultaneously
Long-term/short-term – Unallocated Limits	17.00	17.00	[ICRA]A-(CE) (Negative)/ [ICRA]A2+(CE) withdrawn; [ICRA]BBB (Stable)/[ICRA]A3+ assigned simultaneously
<b>Total</b>	<b>29.97</b>	<b>29.97</b>	

\*Instrument details are provided in Annexure-I

### Rationale

ICRA has withdrawn its rating of [ICRA]A-(CE) (Negative)/[ICRA]A2+(CE) for the bank facilities of Laxmi Technical Textile Private Limited (LTTP) and has simultaneously assigned a fresh rating of [ICRA]BBB (Stable)/[ICRA]A3+ for these facilities. The rating action follows the Guidance Note and the FAQ document issued by the Reserve Bank of India (RBI) to the credit rating agencies on April 22, 2022, and July 26, 2022, respectively, guiding that the benefit of a corporate guarantee that does not meet the evaluation mechanism/ criteria defined by the RBI is not to be considered while assigning credit enhanced (CE) ratings<sup>1</sup>. Among other considerations, the [ICRA]A-(CE) (Negative)/[ICRA]A2+(CE) rating drew comfort from the presence of a corporate guarantee extended by SVG Fashions Private Limited (SVGFP); rated [ICRA]A(Negative)/[ICRA]A2+ to the lenders of the rated bank facilities. For assigning the rating, ICRA had assessed the attributes of the guarantee issued by SVGFP in favour of the rated facility. While the guarantee was legally enforceable, irrevocable, unconditional, covered the entire tenor of the rated facility, and met all the attributes of a strong guarantee, it did not have a well-defined invocation and payment mechanism as well as lacked a payment without deduction clause. Taking cognizance of the above, ICRA had assigned a rating of [ICRA]A-(CE) (Negative)/[ICRA]A2+(CE) to the said facility against the unsupported rating of [ICRA]BBB/[ICRA]A3+ and in relation to the guarantor's rating of [ICRA]A (Negative)/[ICRA]A2+.

To align itself with the aforesaid regulatory guidance, ICRA would no longer be considering in its credit assessments the benefit of a guarantee that lacks an invocation and payment mechanism, though such a support represents a relatively stronger expression of commitment on the part of the support provider for the supported facilities in comparison with support that is only implicit in nature. Accordingly, ICRA has assigned the rating of [ICRA]BBB (Stable)/[ICRA]A3+ to the above bank facilities of LTTP, while withdrawing the [ICRA]A+(CE) (Negative)/[ICRA]A2+(CE) rating.

ICRA notes that LTTP and SVGFP have some business linkages and LTTP is of strategic importance to its parent. Therefore, ICRA expects SVGFP to be willing to extend timely financial support to LTTP, as and when needed. LTTP's rating factors in

<sup>1</sup> The RBI has permitted the existing (CE) ratings to continue until the residual tenor of the loan. However, for the (CE) ratings outstanding on working capital facilities that are renewed periodically (like cash credit facilities that fall due for renewal at an annual frequency), the residual tenor of these facilities is to be considered as the time remaining until the next due date of renewal.

the above strengths, arising from the linkages with a Group company with a relatively stronger credit profile, even as the benefit of the guarantee extended by SVGFPL has been ignored.

The ratings continue to factor in the healthy financial performance of the company in H1 FY2023 and ICRA's expectations of continued performance in the medium term despite macro-economic headwinds. The ratings continue to derive comfort from the extensive experience of LTTPL's promoters in the textile industry along with the company's comfortable capital structure and healthy debt coverage metrics. However, the ratings continue to remain constrained by the company's modest scale of operations along with intense competition in the industry from organised and unorganised players, which limits the company's pricing power and financial flexibility. The ratings also factor in the vulnerability of LTTPL's revenue and profitability to volatility in prices of raw materials and finished products, which are derivatives of crude oil.

The Stable outlook on the long-term rating reflects ICRA's expectations that LTTPL will continue to benefit from its operational linkages with SVG while maintaining a comfortable capital structure and coverage indicators.

## Key rating drivers and their description

### Credit strengths

**Extensive experience of promoters in the textile industry** – LTTPL's promoters have a long experience spanning over three decades in the textile industry in India. The company is a part of the larger Shree Venkateshwara Group (SVG) of companies having diversified interests across the textile value chain. LTTPL's business linkages with SVG are expected to benefit the company's operations.

**Healthy capital structure and debt protection metrics** – LTTPL's capital structure has recorded a sustained improvement over the years, characterised by a reduction in the gearing to 0.5 times as on March 31, 2022 from 1.6 times as on March 31, 2017, supported by healthy cash accruals and substantial repayment of debt. The company continues to maintain comfortable coverage metrics with interest cover of 7.0 times and DSCR of 2.9 times in FY2022.

### Credit challenges

**Modest scale of operations** – LTTPL's scale of operations remains modest with revenue of ~Rs. 55.4 crore in FY2022 and an installed capacity of ~4,800 MTPA of warp-knitted greige fabric. This is low compared to industry standards and restricts the company from benefitting from economies of scale while also limiting its operating flexibility.

**Vulnerability of margins to volatility in commodity prices** – The company's major raw materials are derivatives of crude oil. Given the inherent volatility in the prices of crude oil, the company's revenue and profitability remain exposed to adverse price fluctuations.

**Limited pricing flexibility and intense industry competition** – The textile industry in India is characterised by high levels of fragmentation and low entry barriers across the value chain. As a result, the company faces intense competition from other industry players. This, coupled with the largely commoditised nature of products with low avenues of product differentiation, limits the company's pricing flexibility.

### Liquidity position: Adequate

LTTPL's liquidity remains adequate with its cash flow from operations expected to be sufficient to meet the modest debt repayment obligations of Rs. 0.5 crore per annum over the next 12-24 months. The company does not have any major capital expenditure plans. Its liquidity profile is further supported by free cash balance of Rs. 2.9 crore and unutilised working capital limits of ~Rs. 2.5 crore as on March 31, 2022.

## Rating sensitivities

**Positive factors** – Sustained growth in revenue and profitability of the company while maintaining comfortable coverage indicators and a healthy liquidity profile could lead to a ratings upgrade. The ratings also remain sensitive to improvement in the credit profile of SVG Fashions Private Limited.

**Negative factors** – Pressure on the ratings could arise in case of a sustained deterioration in the financial performance of LTTPL or worsening credit profile of SVG Fashions Private Limited. Specific credit metrics that could result in a ratings downgrade include interest cover below 3.0 times on a sustained basis.

## Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">Rating Methodology – Textiles (Fabric Making)</a> <a href="#">Rating Approach – Implicit Parent or Group Support</a> <a href="#">Policy on Withdrawal of Credit Ratings</a>
Parent/Group support	<b>Support Provider:</b> SVG Fashions Private Limited (SVGFPPL)  The rating assigned to LTTPL factors in the reasonable likelihood of its Group company, SVGFPPL [rated [ICRA]A (Negative)/[ICRA]A2+], extending financial support to it because of some operational linkages between them. We also expect SVGFPPL to be willing to extend financial support to LTTPL out of its need to protect its reputation from the consequences of a Group entity's distress.
Consolidation/Standalone	Standalone

## About the company

Laxmi Technical Textile Private Limited (LTTPL) was originally incorporated as Suchita Syntex Private Limited in 1994 for trading warp-knitted greige fabric and greige cotton. The company was taken over by the Shree Venkateshwara Group (SVG) in 1999 and its name was changed to its current form in 2012. LTTPL commenced the manufacturing of greige knitted fabric in FY2012 by setting up a manufacturing facility in Silvassa with an installed capacity of 1,404 MTPA. Over the years, the company has scaled up its capacity to ~4,800 MTPA with its products finding application in home furnishing, footwear, lamination, etc. SVG Fashions Private Limited held a stake of 23.2% in the company as on March 31, 2022.

## Key financial indicators (audited)

LTTPL Standalone	FY2021	FY2022
Operating income	37.2	55.4
PAT	1.5	1.2
OPBDIT/OI	11.0%	6.8%
PAT/OI	4.0%	2.2%
Total outside liabilities/Tangible net worth (times)	0.3	0.5
Total debt/OPBDIT (times)	1.3	2.6
Interest coverage (times)	9.7	7.0

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs. crore

### Status of non-cooperation with previous CRA:

CRISIL Ratings Limited's rationale date August 17, 2022 specifies LTTP's rating as CRISIL B+/Stable/A4 Issuer Not Cooperating. As per the press release: "Despite repeated attempts to engage with the management, CRISIL Ratings failed to receive any information on either the financial performance or strategic intent of LTTP, which restricts CRISIL Ratings' ability to take a forward looking view on the entity's credit quality. CRISIL Ratings believes that the rating action on LTTP is consistent with 'Assessing Information Adequacy Risk'. Based on the latest available information, the ratings on bank facilities of LTTP continue to be CRISIL B+/Stable/A4 Issuer Not Cooperating."

**Any other information: None**

### Rating history for past three years

Instrument	Type	Current rating (FY2023)		Chronology of rating history for the past 3 years					
		Amount rated (Rs. crore)	Amount outstanding as of Mar 31, 2022 (Rs. crore)	Date & rating in FY2023		Date & rating in FY2022	Date & rating in FY2021		Date & rating in FY2020
				Dec 05, 2022	May 06, 2022		Mar 05, 2021	Mar 05, 2020	
<b>1 Cash credit facilities</b>	Long term	9.50	-	[ICRA]A-(CE) (Negative) withdrawn; [ICRA]BBB (Stable) assigned simultaneously	[ICRA]A-(CE) (Negative)	-	[ICRA]A-(CE) (Stable)	[ICRA]A-(CE) (Stable)	[ICRA]A (SO) (Stable)
<b>2 Term Loans</b>	Long term	2.47	2.39	[ICRA]A-(CE) (Negative) withdrawn; [ICRA]BBB (Stable) assigned simultaneously	[ICRA]A-(CE) (Negative)	-	[ICRA]A-(CE) (Stable)	[ICRA]A-(CE) (Stable)	[ICRA]A (SO) (Stable)
<b>3 Non-fund based</b>	Long term	1.00	-	[ICRA]A-(CE) (Negative) withdrawn; [ICRA]BBB (Stable) assigned simultaneously	[ICRA]A-(CE) (Negative)	-	[ICRA]A-(CE) (Stable)	[ICRA]A-(CE) (Stable)	[ICRA]A (SO) (Stable)
<b>4 Unallocated Limits</b>	Long term/short term	17.00	-	[ICRA]A-(CE) (Negative)/[ICRA]A2+(CE) withdrawn; [ICRA]BBB (Stable)/[ICRA]A3+ assigned simultaneously	[ICRA]A-(CE) (Negative)/[ICRA]A2+(CE)	-	[ICRA]A-(CE) (Stable)/[ICRA]A2+(CE)	[ICRA]A-(CE) (Stable)/[ICRA]A2+(CE)	[ICRA]A (SO) (Stable)/[ICRA]A1 (SO)

## Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund based – Cash Credit facilities	Simple
Long-term fund based – Term Loans	Simple
Long-term non-fund based	Simple
Long-term/short-term – Unallocated Limits	N.A.

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
N.A.	Cash Credit	NA	NA	NA	9.50	[ICRA]A-(CE) (Negative) withdrawn; [ICRA]BBB (Stable) assigned simultaneously
N.A.	Term Loan	FY2022	NA	FY2027	2.47	[ICRA]A-(CE) (Negative) withdrawn; [ICRA]BBB (Stable) assigned simultaneously
N.A.	Non-fund based limits	NA	NA	NA	1.00	[ICRA]A-(CE) (Negative) withdrawn; [ICRA]BBB (Stable) assigned simultaneously
N.A.	Unallocated Limits	NA	NA	NA	17.00	[ICRA]A-(CE) (Negative)/[ICRA]A2+(CE) withdrawn; [ICRA]BBB (Stable)/[ICRA]A3+ assigned simultaneously

Source: Company

**Annexure II: List of entities considered for consolidated analysis: Not applicable**

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