

May 21, 2024

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 - fund based/cash credit	45.00	45.00	[ICRA]BBB (Stable); reaffirmed
Long term - fund based term loan	26.32	24.35	[ICRA]BBB (Stable); reaffirmed
Short term - non-fund based	8.00	4.00	[ICRA]A3+; reaffirmed
Long term – unallocated	11.90	17.87	[ICRA]BBB (Stable); reaffirmed
Total	91.22	91.22	

*Instrument details are provided in Annexure-I

Rationale

The ratings reaffirmation for Sivaswati Textiles Private Limited (STPL) considers the expected improvement in the company's performance over the medium term on the back of its established presence and diversified revenue base with location-specific advantages, recent cost saving measure undertaken and a conservative capital structure. Despite a moderate decrease in revenues by ~7% in FY2024 (on a YoY basis) due to unfavourable yarn realisations, the operating margins have improved due to addition of captive solar capacity in FY2024 (provisional), and economies of scale achieved through increase in sales volume. Cash accruals and debt coverage indicators have improved in FY2024 on a YoY basis, however, the same remain weaker than the levels witnessed in FY2021 and FY2022.

The ratings, however, remain constrained by the company's moderate scale of operations, high working capital requirements in the business, given the seasonality associated with raw material availability and high customer concentration risk. The recent debt-funded capital expense incurred towards setting up a 5-MW captive solar plant led to weakening of debt coverage indicators (in comparison to comfortable levels witnessed in the past). Nevertheless, the cost savings resulting from the capex are expected to accrue over the medium term and no major capex has been planned by the entity over the medium term. The ratings also remain constrained as 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 on the long-term rating reflects ICRA's expectation that STPL is likely to improve its revenues and operating 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 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 and driving repeat businesses. 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 resulting in lower logistics costs. Further, STPL can manufacture 100% cotton and a mix of polyester viscose-blended spun yarn in the counts ranging from 30s to 60s, 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 its volumes over the years, except in FY2021, when the performance was modest because of intense competition and the pandemic.

Comfortable capital structure – STPL’s financial profile remains comfortable, characterised by a conservative capital structure, supported by its net worth, and moderate dependence on external debt (except in FY2023, when a steep increase was witnessed due to year-end cotton stocking requirement). Key metrics, including total debt to TNW and TOL/TNW stood at 0.8 times and 1.0 times, respectively, in FY2023 and are expected to improve to 0.5 times and 0.7 times, respectively in FY2024 with reduction in working capital borrowings in FY2024. The capital structure is expected to remain comfortable as there are no major debt-funded capex plans by STPL over the medium term.

Credit challenges

Moderate scale of operations and concentration risks – STPL’s scale of operations remains moderate, with an operating income of Rs. 246 crore in FY2024, limiting the economies of scale and financial flexibility in a capital-intensive sector. Its revenues are also exposed to asset and customer concentration risks, with the top ten customers accounting for 74% of its total sales in 10M FY2024. These risks are buffered by STPL’s diversified product base, which supports its profitability and long relationship with its key customers, which lend some stability to revenues.

Recent debt-funded capex weakening coverage indicators – STPL commissioned a 5-MW captive solar plant in May 2024 at a total cost of ~Rs. 25 crore, funded through debt of Rs. 17 crore and the balance requirements were met out of their retained earnings. The capex and interest cost incurred towards the end of FY2022 and FY2023 were capitalised in FY2024, which led to an increase in interest expenses to Rs. 5.1 crore in FY2024 from Rs. 2.4 crore in FY2023. Despite an improvement in the operating margins in FY2024 on a YoY basis, its debt coverage indicators weakened in FY2024 from the comfortable levels witnessed in the past due to this recent debt-funded expansion. Nevertheless, the cost savings resulting from the capex are expected to accrue over the medium term, which would support its overall earnings and coverage indicators.

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 buffer in the working capital limits of ~Rs.21 crore as on March 31, 2024. The company has repayment obligations of Rs. 6.7 crore in FY2025 and Rs.5.5 crore in FY2026. The cash accruals are expected to be sufficient to meet the same and the company has no major capital expenditure plans. The average utilisation of fund-based limits stood at ~67% of the sanctioned limit (of Rs. 45 crore) for the last 12 months ending in March 2024.

Rating sensitivities

Positive factors – STPL’s ratings may be upgraded if the company registers a significant growth in revenues and improves its profitability, debt protection metrics and liquidity position.

Negative factors – Pressure on STPL’s ratings could arise if there is sustained weakness in its operating performance or upon any elongation in 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 Textiles - 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 30s to 60s count of combed and compact yarn. In FY2024, the company has commissioned a 5-MW solar power plant for meeting its captive power requirements.

Key financial indicators (audited)

STPL	FY2022	FY2023	FY2024*
Operating income	276.6	264.6	246.0
PAT	13.6	1.4	3.7
OPBDIT/OI	10.2%	3.2%	6.1%
PAT/OI	4.9%	0.5%	1.5%
Total outside liabilities/Tangible net worth (times)	0.6	1.0	-
Total debt/OPBDIT (times)	0.9	9.9	-
Interest coverage (times)	6.8	3.5	3.0

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore *Provisional numbers shared by the company

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	Type	Current rating (FY2025)			Chronology of rating history for the past 3 years		
		Amount rated (Rs. crore)	Amount outstanding as of Mar 31, 2024 (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & Rating in	Date & Rating in FY2022
				May 21, 2024	-	February 06, 2023	January 06, 2022
1 Cash Credit	Long-term	45.00	-	[ICRA]BBB (Stable)	-	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)
2 Term Loan	Long-term	24.35	24.35	[ICRA]BBB (Stable)	-	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)
3 Non-fund based	Short-term	4.00	-	[ICRA]A3+	-	[ICRA]A3+	[ICRA]A3+

4 Unallocated	Long-term	17.87	-	[ICRA]BBB (Stable)	-	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)
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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 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 Loan	FY2021-FY2023	NA	FY2026-FY2028	24.35	[ICRA]BBB (Stable)
NA	Long term fund based	-	NA	-	45.00	[ICRA]BBB (Stable)
NA	Short term Non fund based	-	NA	-	4.00	[ICRA]A3+
NA	Unallocated Limits	-	NA	-	17.87	[ICRA]BBB (Stable)

Source: Company

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

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