

May 24, 2024

Sharadha Terry Products Private Limited: Ratings reaffirmed; rated amount enhanced

Summary of rating action

| Instrument* | Previous Rated Amount (Rs. crore) | Current Rated Amount (Rs. crore) | Rating Action |
|---|--------------------------------------|-------------------------------------|--|
| Long-term/short-term fund based/non-fund based limits | 55.00 | 55.00 | [ICRA]A+ (Stable)/[ICRA]A1+; reaffirmed |
| Long-term/short-term – Unallocated Limits | 10.00 | 30.00 | [ICRA]A+ (Stable)/[ICRA]A1+; reaffirmed and assigned for the enhanced amount |
| Total | 65.00 | 85.00 | |

*Instrument details are provided in Annexure-I

Rationale

The ratings reaffirmation reflects ICRA's expectations that the financial risk profile of Sharadha Terry Products Private Limited (STPPL) will continue to remain healthy with a conservative capital structure and comfortable coverage metrics, aided by healthy cash flow from operations and likely improvement in the company's scale of operations over the medium term. STPPL's performance moderated in FY2023 as its operating income declined by ~11% on a YoY basis. ICRA expects the top line to decline further by ~11 in FY2024. The same is attributable to the recessionary trends as discretionary spending reduced, leading to a contraction in demand from the US and other export destinations. ICRA believes that STPPL's performance is likely to remain steady over the coming quarters despite uncertainty over export demand for textiles owing to evolving global macro-economic scenario, supported by its established relationships with large retailers in the US. The company's financial risk profile remains healthy with a sizeable net worth base, limited reliance on debt and sizeable free cash and liquid investments. ICRA notes that the company has incurred a growth capex of ~Rs. 25 crore in FY2024 and is expected to incur the balance ~Rs. 40 crore in Q1 FY2025 towards setting up of a facility to manufacture bath rugs, financed entirely through internal accruals. The production of bath rugs is expected to start from June 2024 with a target revenue of ~Rs. 100 crore in FY2025. Moreover, the management is taking initiatives to increase customer and geographical diversification of revenues, which are likely to benefit the company over the medium term and remain key rating sensitivities. The ratings continue to favourably factor in STPPL's strong market position in the terry towel export segment, established relationships with large global retailers and extensive experience of its promoters in the textile industry. The integrated nature of operations with sizeable spinning and weaving capacities supports the ratings.

The ratings, however, remain constrained by high product and geographical concentration risks, with the major portion of STPPL's revenue derived from export of terry towels to the US, which exposes its operations to the risk of demand slowdown amid evolving macro-economic conditions. The ratings also consider the vulnerability of STPPL's revenue and profitability to fluctuations in cotton prices and foreign exchange rates along with the company's moderate scale of operations.

ICRA further notes that a fire broke out in the factory premises on March 31, 2024, leading to a likely loss of around Rs. 30 crore, including inventory loss of ~Rs. 15 crore. However, there was no major production loss as the operations were resumed in a couple of days. ICRA notes that the facility was covered under insurance and the company has filed for the loss with the insurers.

The Stable outlook on the long-term rating reflects ICRA's opinion that STPPL will continue to maintain a sizeable net cash position over the next 12 months in the absence of any debt-funded capital expenditure plan while generating healthy cash flow from operations.

Key rating drivers and their description

Credit strengths

Established position in the terry towel export market and extensive experience of promoters – STPPL is an established manufacturer and exporter of terry towels from India, with an operational track record of around three decades. The company is among the top terry towel exporters from India to the US. Its promoters have extensive experience of over four decades in the textile industry.

Sizeable capacity and integrated nature of operations – While STPPL's revenue is dominated by terry towels, it has substantial backward integration into spinning of yarn, which is a raw material for the towels, with an installed capacity of more than 70,000 spindles and 163 looms. Sizeable capacity and high degree of backward integration allow operational flexibility to the company and enable it to capture a larger portion of the textile value chain while controlling the quality of raw materials.

Robust financial risk profile – STPPL maintains a strong financial risk profile, characterised by a conservative capital structure and healthy coverage metrics on the back of consistent earnings from operations over the years. The leverage indicators have remained comfortable due to low reliance on external debt. Further, its financial flexibility is enhanced by a strong liquidity position with sizeable free cash and liquid investments worth more than Rs. 480 crore as on March 31, 2023. The company is likely to maintain a comfortable financial profile over the medium term.

Long-term relationships with key customers and established brand name – STPPL has an established association with leading large format retailers in the US (including Target and Macy's, among others), demonstrated by its approved vendor status and sizeable history of repeat orders from key customers. The company focuses on the value-added products in the terry towel segment, which aids it to offer differentiation, reducing the risk of customer loss. This enables revenue visibility and operational stability to the business. Moreover, STPPL markets its products under the Micro Cotton® brand, which has a strong brand equity in the premium segment.

Credit challenges

Exposed to high revenue concentration – STPPL's revenue is primarily derived from terry towels while sale of yarn accounts for ~25% of its revenue. Additionally, the US accounts for the major portion of its export revenue. Any major customer loss or weak economic environment in key export destinations could have a material adverse impact on STPPL's performance. However, these risks are mitigated to an extent by its established market position and long association with major customers. ICRA also notes the management's initiatives to expand into new markets, approach new customers in existing markets and increase its share by offering new products to customers, which are likely to benefit business diversification over the medium term.

Moderate scale of operations – STPPL's scale of operations remains moderate over the last five years, despite a sizeable installed capacity. ICRA understands that this is partly attributable to the company's focus on high value-added products. Nevertheless, the company's ability to sustainably increase its scale of operations along with improvement in product and geographical diversification of revenues would be monitored.

Vulnerability of revenue and earnings to volatility in raw material prices, foreign exchange rates and export incentives offered by the Government – STPPL's revenue and earnings are exposed to risks arising from volatility in prices of cotton and cotton yarn. This risk is mitigated to an extent by order-backed inventory stocking undertaken by the company and healthy cash reserves, which allow it to stock inventory at opportune prices. Moreover, being a net exporter, the company is exposed to fluctuations in forex rates. Nevertheless, STPPL hedges 40-50% of its receivables, which reduce the risk to an extent. STPPL's margins are also exposed to risks from changes in the export incentives offered by the Government, which have been extended till March 2026.

Liquidity position: Strong

STPPL's liquidity remains **Strong**, characterised by substantial free cash and liquid investments worth more than Rs. 480 crore as on March 31, 2023. The liquid investments are, however, parked in a range of debt and equity instruments, a portion of which could be relatively illiquid. ICRA also draws comfort from STPPL's moderate average utilisation of working capital limits, which stood at ~30% over the 12-month period with a buffer of ~Rs. 28 crore (with commensurate drawing power) as on February 28, 2024. The company does not have any debt repayment obligation and is likely to incur a capex of ~Rs. 55 crore in FY2025, which is expected to be financed from cash reserves and internal accruals. STPPL is expected to generate healthy cash flow from operations over the medium term.

Rating sensitivities

Positive factors – The long-term rating may be upgraded if the scale of operations and earnings register a strong growth on a sustained basis and the business profile becomes more diversified with addition of new customers across geographies.

Negative factors – The ratings may be downgraded upon any sustained pressure on the operating performance due to loss of business from any of its key customers or any large debt-funded capital expenditure, adversely impacting its capital structure and liquidity position. Specific credit metric that ICRA could monitor is the total debt/OPBDITA exceeding 1.0 times on a sustained basis.

Analytical approach

| Analytical Approach | Comments |
|---------------------------------|--|
| Applicable rating methodologies | Corporate Credit Rating Methodology Rating Methodology – Textiles (Spinning) Rating Methodology – Textiles (Fabric Making) |
| Parent/Group support | Not Applicable |
| Consolidation/Standalone | For arriving at the ratings, ICRA has considered the consolidated financials of STPPL and its subsidiaries, which are enlisted in Annexure-II |

About the company

Sharadha Terry Products Private Limited (STPPL), established in 1992 by Mr. Govindasamy Kannappan, manufactures and markets cotton terry towels and related products. The company has vertically integrated spinning, weaving and processing facilities in Coimbatore with an installed capacity of over 70,000 spindles and more than 160 looms. STPPL primarily markets its products under its brand name, Micro Cotton®, to reputed customers in the US market.

Key financial indicators (audited)

| STPPL Consolidated | FY2021 (Audited) | FY2022 (Audited) | FY2023 (Audited) |
|--|---------------------|---------------------|---------------------|
| Operating income | 387 | 501 | 445 |
| PAT | 62 | 74 | 58 |
| OPBDIT/OI | 26.9% | 19.2% | 14.3% |
| PAT/OI | 16.0% | 14.7% | 13.1% |
| Total outside liabilities/Tangible net worth (times) | 0.0 | 0.1 | 0.0 |
| Total debt/OPBDIT (times) | 0.1 | 0.4 | 0.4 |
| Interest coverage (times) | 51.4 | 51.1 | 26.2 |

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

Note: All ratios as per ICRA's calculations

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) | Amount outstanding as of Mar 31, 2024 (Rs. crore) | Date & rating in FY2025 | | Date & rating in FY2024 | Date & rating in FY2023 | Date & rating in FY2022 | |
| | | | | | May 24, 2024 | | May 25, 2023 | - | Feb 14, 2022 | Dec 31, 2021 |
| 1 | Fund-based/non-fund based limits | Long-term/short-term | 55.00 | - | [ICRA]A+ (Stable)/ [ICRA]A1+ | | [ICRA]A+ (Stable)/ [ICRA]A1+ | - | [ICRA]A+ (Stable)/ [ICRA]A1+ | [ICRA]A+ (Stable)/ [ICRA]A1+ |
| 2 | Unallocated Limits | Long-term/short-term | 30.00 | - | [ICRA]A+ (Stable)/ [ICRA]A1+ | | [ICRA]A+ (Stable)/ [ICRA]A1+ | - | - | - |

Complexity level of the rated instruments

| Instrument | Complexity Indicator |
|---|----------------------|
| Long-term/short-term fund based/non-fund based limits | Simple |
| Long-term/short-term – Unallocated Limits | 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 | Fund-based/non-fund based limits | NA | NA | NA | 55.00 | [ICRA]A+ (Stable)/[ICRA]A1+ |
| NA | Unallocated limits | NA | NA | NA | 30.00 | [ICRA]A+ (Stable)/[ICRA]A1+ |

Source: STPPL

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure II: List of entities considered for consolidated analysis

| Company Name | STPPL's Ownership | Consolidation Approach |
|--|-------------------|------------------------|
| Sharadha Terry Products Private Limited | rated entity | Full Consolidation |
| Microcotton Inc. | 100.00% | Full Consolidation |
| Heramba Holdings Private Limited | 100.00% | Full Consolidation |
| Sri Kumaraguru Holdings Private Limited | 100.00% | Full Consolidation |
| Sri Muka Holdings Private Limited | 100.00% | Full Consolidation |
| Shanmugha Vadivel Holdings Private Limited | 100.00% | Full Consolidation |
| Vadivelan Holdings Private Limited | 100.00% | Full Consolidation |
| Microcotton India LLP | 100.00% | Full Consolidation |
| Home Concepts LLP (formerly Seyon Wind Energy LLP) | 100.00% | Full Consolidation |

Source: STPPL's Annual Report FY2023

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About ICRA Limited:

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Branches



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