

March 17, 2022

Sree Lakshmi Venkateswara Spinning Mills Private Limited: Ratings Upgraded to [ICRA]BB+(Stable)/[ICRA]A4+; Removed from Issuer Not Cooperating category and withdrawn

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund based - Cash Credit	10.00	10.00	[ICRA]BB+(Stable); Rating removed from 'Issuer Not Cooperating' category and upgraded from [ICRA]B+(Stable) ISSUER NOT COOPERATING; withdrawn
Long-term – Fund based – Term Loan	10.76	10.76	[ICRA]BB+(Stable); Rating removed from 'Issuer Not Cooperating' category and upgraded from [ICRA]B+(Stable) ISSUER NOT COOPERATING; withdrawn
Short term – Non-fund Based	0.40	0.40	[ICRA]A4+; Rating removed from 'Issuer Not Cooperating' category and upgraded from [ICRA]A4 ISSUER NOT COOPERATING; withdrawn
Total	21.16	21.16	

*Instrument details are provided in Annexure-1

Rationale

ICRA has upgraded the ratings and removed it from the 'Issuer Not Cooperating' category based on adequate information received from the client for carrying out a detailed credit assessment.

The rating action reflects the improvement in the performance of Sree Lakshmi Venkateswara Spinning Mills Private Limited (SVSPL) in the recent quarters and an expected steady performance over the medium term, supported by favourable demand conditions and long relationship with customers. Post the limited growth in revenues in FY2021 owing to the pandemic-induced demand disruptions in H1 FY2021, SVSPL has witnessed healthy growth in revenues and earnings on the back of strong demand and favourable price realisations in the recent quarters. Better earnings have also supported improvement in the coverage metrics and liquidity position of the company. With no major expansion plans and expected steady earnings, SVSPL's credit metrics are expected to remain at adequate levels. The ratings remain constrained by SVSPL's small scale of operations which limits the economies of scale and financial flexibility. Besides, limited business diversification, modest net worth base and intense competition in the domestic spinning industry limit pricing flexibility and expose its earnings to fluctuations in raw material prices. The ratings also factor in SVSPL's long track record in the business and the experience of the promoters in the cotton spinning business.

The Stable outlook reflects ICRA's opinion that SVSPL will continue to benefit from its established relationship with customers and expected favourable demand conditions.

The ratings assigned to the bank facilities of SVSPL have been withdrawn at the request of the company and based on the No Objection Certificate (NOC) received from the banker. The same is in accordance with ICRA's policy on withdrawal of credit ratings.

Key rating drivers and their description

Credit strengths

Established track record and improvement in operating performance in recent quarters – SVSPL 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. Also, SVSPL’s operating performance has improved in the recent quarters, primarily aided by favourable demand conditions and a consequent growth in price realisations, resulting in strong revenue growth and better contribution levels.

Adequate debt protection metrics – SVSPL’s coverage metrics have improved in the recent past, driven by the growth in earnings from operations. SVSPL has also made additions to its captive windmill over the years, which caters to a sizeable portion of its power requirements and supports earnings. SVSPL’s debt protection metrics are likely to remain at adequate levels over the medium term with the expected steady cash accruals in the coming quarters.

Credit challenges

Small scale of operations and limited pricing flexibility – SVSPL is a relatively small-sized player in the highly fragmented domestic spinning industry, with revenues of around Rs. 120 crore expected in FY2022. The company’s performance has been limited primarily by capacity constraints, which limit the economies of scale and financial flexibility. SVSPL’s revenues are also exposed to asset concentration and moderate customer concentration risks.

Vulnerability of profitability to adverse fluctuation in raw material prices – SVSPL’s profitability is susceptible to adverse movement in raw material prices, given the intense competition, which limits its pricing flexibility. A sustained appreciation in the prices of raw materials can adversely impact its earnings as witnessed in the past.

Liquidity position: Adequate

SVSPL’s liquidity profile is adequate, supported by the improvement in earnings from operations. At the end of December 2021, the company enjoyed cash buffer (including unutilised lines of credit) of around Rs. 20 crore. Its average working capital utilisation (as a percentage of its limits) in the past 12 months ending in February 2022 stood at less than 10%. Further, SVSPL has limited capital expenditure plans and long-term debt service obligations over the next three years (around Rs. 5-6 crore per annum combined), which are expected to be met from the cash accruals.

Rating sensitivities

Positive factors – Not applicable

Negative factors – Not applicable

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in the Indian Textiles Industry – Spinning Policy on Withdrawal of Credit Ratings
Parent/Group Support	Not Applicable
Consolidation/Standalone	The ratings are based on the standalone financial statements of the rated entity.

About the company

SVSPL was incorporated in August 1993. The company manufactures cotton yarn and grey fabric. Its plant is located in Tirupur with a total installed capacity of 36,576 spindles and 42 air-jet looms. The company has a windmill and solar plant with an installed capacity of 6.4 MW and 996 kW for its power requirements.

Key financial indicators

SVSPL Standalone	FY2020	FY2021
Operating Income (Rs. crore)	76.0	79.1
PAT (Rs. crore)	4.7	7.1
OPBDITA/OI (%)	14.2%	17.0%
PAT/OI (%)	6.2%	9.0%
Total Outside Liabilities/Tangible Net Worth (times)	1.2	0.8
Total Debt/OPBDITA (times)	1.2	0.7
Interest Coverage (times)	10.6	22.2

Source: SVSPL; PAT: Profit after Tax; OPBDITA: 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 (FY2022)				Chronology of Rating History for the past 3 years			
		Type	Amount Rated	Amount Outstanding as on March 31, 2021 (Rs. crore)	Date & Rating in	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
					17-Mar-22	27-May-21		11-Nov-19	
1	Fund Based-Cash Credit	Long Term	10.00	-	[ICRA]BB+ (Stable); withdrawn	[ICRA]B+ (Stable); ISSUER NOT COOPERATING	-	[ICRA]BB (Stable)	-
2	Fund Based-Term Loan	Long Term	10.76	7.83	[ICRA]BB+ (Stable); withdrawn	[ICRA]B+ (Stable); ISSUER NOT COOPERATING	-	[ICRA]BB (Stable)	-
4	Non-Fund based	Short Term	0.40	-	[ICRA]A4+; withdrawn	[ICRA]A4; ISSUER NOT COOPERATING	-	[ICRA]A4	-

Source: SVSPL

Complexity level of the rated instrument

Instrument	Complexity Indicator
Long term- Fund Based Term Loan	Simple
Fund-based- Working Capital Facilities	Simple
Non-fund Based	Very Simple

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, is available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN No/Banker Name	Instrument Name	Date of Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Fund based - CC	-	-	-	10.00	[ICRA]BB+ (Stable); withdrawn
NA	Fund based - TL	FY2016	-	FY2025	10.76	[ICRA]BB+ (Stable); withdrawn
NA	Non-fund based	-	-	-	0.40	[ICRA]A4+; withdrawn

Source: SVSPL

Annexure-2: List of entities considered for consolidated analysis: Not Applicable

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