February 05, 2024

Viswateja Spinning Mills Private Limited: Ratings upgraded and Removed from Issuer Non-Cooperating Category; Rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Cash credit	24.00	40.00	[ICRA]BBB- (Stable); Upgraded from [ICRA]B+ (Stable) ISSUER NOT COOPERATING and removed from Issuer Not Cooperating category; assigned for the enhanced amount
Long-term Non-fund Based – Others	9.30	0.00	-
Long-term Fund-based – Term loan	18.60	22.69	[ICRA]BBB- (Stable); Upgraded from [ICRA]B+ (Stable) ISSUER NOT COOPERATING and removed from Issuer Not Cooperating category; assigned for the enhanced amount
Short-term Fund-based – Cash credit	11.00	0.00	-
Short-term Fund-based – Short term loan	-	10.00	[ICRA]A3; assigned
Long-term / Short-term – Interchangeable – Others	(20.30)	0.00	-
Long-term / Short-term – Unallocated	0.10	7.31	[ICRA]BBB- (Stable)/ [ICRA]A3; Upgraded from [ICRA]B+ (Stable) ISSUER NOT COOPERATING/ [ICRA]A4 ISSUER NOT COOPERATING and removed from Issuer Not Cooperating category; assigned for the enhanced amount
Total	**63.00**	**80.00**	

**Instrument details are provided in Annexure-1*

Rationale

ICRA has upgraded the ratings for Viswateja Spinning Mills Private Limited (VSMPL) and removed the same from the 'ISSUER NOT COOPERATING' category based on adequate information received from the client for carrying out a detailed credit assessment.

The ratings favourably factor in the extensive experience of the promoters in the spinning industry and the company's presence in the value-added yarn and medium to finer count manufacture that helped it to garner repeat orders from reputed customers, leading to better margins. The company's revenue remained stable with steady growth while maintaining stable operating profit margins of around 13%, resulting in increased cash accruals. VSMPL's operating performance remained satisfactory in FY2023 even in the weak demand environment and high volatility observed in the cotton fibre prices. The ratings also consider cost-cutting measures adopted by the company for generating around 70% of its power requirement through the captive windmill and solar power plant, thereby supporting the margins.

However, the ratings are constrained by the moderate scale of operations with 49,728 spindles and low net worth. The ratings also consider the commoditised nature of the company's products, which coupled with the fragmented industry structure, result in limited pricing power, keeping profitability under check. Further, the ratings factor in the high working capital intensity of VSMPL's operations stemming from the seasonal nature of cotton availability that necessitates stocking during the harvest season, making the profitability vulnerable to volatility in cotton prices. The availability and prices of cotton are also exposed to agro-climatic risks, which have a direct impact on cotton production.

The Stable outlook on the long-term rating reflects ICRA's opinion that the company would continue to register steady revenue growth, backed by its promoters' extensive experience in the cotton industry and VSMPL's established presence in the value-added yarn segment.

Key rating drivers and their description

Credit strengths

Extensive experience of the promoters in cotton industry – The promoters have extensive experience of over 45 years in the cotton spinning industry, leading to an established relationship with customers and suppliers. The management's experience in the industry also supports quality cotton procurement at favourable rates.

Established relationship and track record with reputed customer base – VSMPL derives majority of its revenues (~77% in 9M FY2024) from the sale of medium count yarn, i.e. 40s-60s, followed by finer count yarn (60s-80s), accounting for ~23% of the cotton yarn sales in 9M FY2024. The medium and finer count yarns enjoy higher realisation compared to coarser counts. The higher quality yarn is majorly sold to organised and reputed customers such as Raymonds, Siyaram and others, which offer premium prices for the required product. The company's focus on meeting the quality standards of the key customers helps it in maintain long-term relationships and secure repeated orders.

Higher margins supported by partial captive power generation and presence in high-quality value-added yarn manufacturing – The company had constructed two windmills of 2 megawatts (MW) each at Anantapur and Molagavalli in 2016 and 2018, respectively. Also, the company commissioned its solar power project of 6 MW at its unit premises for in-house consumption with a generation capacity of 90 lakh units per annum. As on date, the company is consuming around 70% electricity of its total energy requirement from its captive sources and the remaining 30% is purchased from the local discom. This arrangement has supported relatively better margins compared to the industry average, which remained stable at around 13% despite lower cotton realisation prices in FY2023.

Credit challenges

Moderate scale of operations and net worth base – VSMPL has moderate scale of operations with an installed capacity of 49,728 spindles and the utilisation stood at 85-90% in the past years. Hence, future revenue growth would be subject to improvement in realisations or an increase in its capacities. Also, due to the company's lower tangible net worth and moderate margins, total debt/ OPBIDTA remains higher at 3.5 times with an interest coverage ratio of 1.3 times at year ending March 31, 2023. However, ICRA notes that the company's shareholders have infused unsecured loans of Rs. 22.7 crore (as on March 31, 2023) at an interest rate of 8.0% p.a with no fixed repayment schedule, which gets accumulated every year in the unsecured loan balances. If unsecured loans are adjusted as quasi-equity, overall leverage and debt coverage indicators are at a comfortable level, i.e. adjusted TOL/TNW of 1.0 times, adjusted debt/ OPBDITA of 2.4 times as on March 31, 2023.

Working capital-intensive operations; susceptible to volatility in cotton and cotton yarn prices – Like other entities in the spinning sector, VSMPL stocks cotton fibre during the harvest season from November to February/March for the next seven to eight months, i.e. until November or December. This practice exposes it to fluctuations in cotton and cotton yarn prices during the non-harvest period, as the procurement cost becomes fixed. This also results in a high inventory position for the company, particularly during the peak season. This results in high working capital intensity for the company, as indicated by the net working capital/ operating income (NWC/OI) of 41.2% in FY2023.

Commoditised nature of yarn and fragmented industry structure keep profitability under check – The spinning industry is highly fragmented with a significant share of the unorganised segment. The company's product portfolio continues to be concentrated towards count yarns, which entail relatively lower value addition. As a result, it enjoys limited pricing power, which is likely to keep VSMPL's profitability under check. Further, the revenues and profit margins are exposed to industry cyclicality, having linkages with agricultural production and the monsoons.

Liquidity Position – Adequate

The company's liquidity remains adequate with expected fund flows from operations of more than Rs. 10 crore in FY2024 against an annual repayment obligation of around Rs. 4.0 crore. Along with its internal accruals and unsecured loans from shareholders, the company utilises its cash credit limits of Rs. 50.0 crore for managing its working capital requirement. Further, the company has no significant capex plans in the near term, considering the recently commissioned solar power project. Nevertheless, the promoters are expected to support the company in case of any shortfall or cash flow mismatch.

Rating sensitivities

Positive factors – The ratings could be upgraded if there is a substantial growth in revenue and profitability, which strengthens the overall financial risk profile and improves the company's liquidity with better working capital management.

Negative factors – The ratings could witness a downward revision if margins decline significantly, resulting in weaker debt coverage metrics. Further, any unanticipated major debt-funded capital expenditure or a stretch in the working capital cycle, adversely impacting the liquidity and debt protection metrics would be a key credit negative. Specific credit metrics that could result in a rating downgrade include interest coverage below 2.5 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for entities in Textiles (Spinning)
Parent/Group Support	Not applicable
Consolidation/Standalone	The ratings are based on the standalone financial profile of the company

About the company

Viswateja Spinning Mills Limited (VSMPL) was incorporated in June 2004 by Mr. Dasari Seshagiri Rao and is engaged in producing medium and fine-count cotton yarn. Based in Guntur (Andhra Pradesh), the company commenced commercial production in April 2005 with a capacity of 13,104 spindles and ramped up capacity to reach current installed capacity of 49,728 spindles. A part of the capacity (36,336) spindles run on a compact spinning system producing value-added compact yarn. Mr. Chandrasekhar Dasari is the primary promoter, looking after the company's management along with the support of family members.

Key financial indicators (audited)

	FY2022	FY2023
Operating income	160.6	163.1
PAT	25.6	7.5
OPBDIT/OI	24.7%	13.0%
PAT/OI	16.0%	4.6%
Total outside liabilities/Tangible net worth (times)	1.5	1.3
Total debt/OPBDIT (times)	1.9	3.5
Interest coverage (times)	8.0	4.5

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

Source: Company; ICRA Research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2024)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding crore) as on Dec 31, 2023	Date and Rating on Feb 05, 2024	Date & Rating FY2023 Feb 16, 2023	FY2022 Dec 09, 2021	FY2021 Oct 20, 2020
1	Fund-based – Cash credit	Long-term	40.00	-	[ICRA]BBB- (Stable)	[ICRA]B+(Stable) ISSUER NOT COOPERATING	[ICRA]B+(Stable) ISSUER NOT COOPERATING	[ICRA]B+(Stable) ISSUER NOT COOPERATING
2	Non-fund Based – Others	Long-term	-	-	-	[ICRA]B+(Stable) ISSUER NOT COOPERATING	[ICRA]B+(Stable) ISSUER NOT COOPERATING	[ICRA]B+(Stable) ISSUER NOT COOPERATING
3	Fund-based – Term loan	Long-term	22.69	22.69	[ICRA]BBB- (Stable)	[ICRA]B+(Stable) ISSUER NOT COOPERATING	[ICRA]B+(Stable) ISSUER NOT COOPERATING	[ICRA]B+(Stable) ISSUER NOT COOPERATING
4	Fund-based – Cash credit	Short-term	-	-	-	[ICRA]A4 ISSUER NOT COOPERATING	[ICRA]A4 ISSUER NOT COOPERATING	[ICRA]A4 ISSUER NOT COOPERATING
5	Fund-based – Short term loan	Short-term	10.00	-	[ICRA]A3	-	-	-
6	Interchangeable – Others	Long-term/ Short-term	-	-	-	[ICRA]B+ (Stable) ISSUER NOT COOPERATING / [ICRA]A4 ISSUER NOT COOPERATING	[ICRA]B+ (Stable) ISSUER NOT COOPERATING / [ICRA]A4 ISSUER NOT COOPERATING	[ICRA]B+ (Stable) ISSUER NOT COOPERATING / [ICRA]A4 ISSUER NOT COOPERATING
7	Unallocated	Long-term/ Short-term	7.31	-	[ICRA]BBB- (Stable)/ [ICRA]A3	[ICRA]B+ (Stable) ISSUER NOT COOPERATING / [ICRA]A4 ISSUER NOT COOPERATING	[ICRA]B+ (Stable) ISSUER NOT COOPERATING / [ICRA]A4 ISSUER NOT COOPERATING	[ICRA]B+ (Stable) ISSUER NOT COOPERATING / [ICRA]A4 ISSUER NOT COOPERATING

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term Fund-based – Cash credit	Simple
Long-term Fund-based – Term loan	Simple
Short-term Fund-based – Short term loan	Very simple
Long-term / Short-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, is available on ICRA's website: Click Here

Annexure-1: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Long-term Fund-based – Cash Credit	NA	NA	NA	40.00	[ICRA]BBB- (Stable)
NA	Long-term Fund-based – Term loan - I	Oct 2016	NA	June 2024	0.45	[ICRA]BBB- (Stable)
NA	Long-term Fund-based – Term loan - II	May 2018	NA	June 2025	2.85	[ICRA]BBB- (Stable)
NA	Long-term Fund-based – Term loan - III	Sep 2021	NA	July 2029	19.39	[ICRA]BBB- (Stable)
NA	Short-term Fund-based – Short term loan	NA	NA	NA	10.00	[ICRA]A3
NA	Long-term / Short-term – Unallocated	NA	NA	NA	7.31	[ICRA]BBB- (Stable)/ [ICRA]A3

Source: *Company*

Please click here to view details of lender-wise facilities rated by ICRA

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

ANALYST CONTACTS

Jayanta Roy
+91 33 7150 1120
jayanta@icraindia.com

Priyesh Ruparelia
+91 22 6169 3328
priyesh.ruparelia@icraindia.com

Manish Pathak
+91 124 4545397
manishp@icraindia.com

Sandeep Aggarwal
+91 124 4545377
sandeep.aggarwal@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar
+91 22 6114 3406
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

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

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.

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For more information, visit www.icra.in

ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches