

February 13, 2017

Subadra Textiles Private Limited

Instrument*	Rated Amount	Rating Action
	(in crore)	
Long-Term Fund Based Limits	4.00	[ICRA]B (Stable); Revised from [ICRA]BB- (Stable)
Short-Term Fund Based Limits	3.50	[ICRA]A4 Re-affirmed
Long-Term/ Short-Term Unallocated Limits	1.50	[ICRA]B (Stable)/ [ICRA]A4 Re-affirmed
Total	9.00	

*Instrument Details are provided in Annexure-1

Rating Action

ICRA has revised the long-term rating from [ICRA]BB- (pronounced as ICRA double B minus)¹ to [ICRA]B (pronounced as ICRA B) for the Rs. 4.00 crore cash credit facility of Subadra Textiles Private Limited ('STPL'/ 'the company'). ICRA has re-affirmed the short-term rating at [ICRA]A4 (pronounced as ICRA A four) for the Rs. 3.50 crore PCFC/ PSCFC facility of the company. ICRA has also reaffirmed the long-term rating of [ICRA]B and the short-term rating of [ICRA]A4 assigned to the Rs. 1.50 crore unallocated limits of the company. The outlook on the long term rating is 'Stable'.

Rationale

The rating revision takes into consideration the deterioration in STPL's financial profile, characterized by operating and net losses, high gearing and subdued coverage indicators, mainly owing to decrease in yarn realisations and inventory losses during FY2016. Although the company had closed majority of its term loans in May 2016, continuing loss from operations resulting in erosion of net worth is expected to keep the gearing and coverage indicators at a depressed level in the near future. Also, the company would have to rely on its short term bank facilities and/ or loans from promoters to fund its working capital cycle which shall create further pressure on its capital structure. However, certain prudent steps being taken currently for the management of the working capital cycle mitigate the above risk to some extent. The ratings also factor in STPL's modest scale of operations, and the intense competition prevalent in the fragmented spinning industry, which restricts economies of scale and pricing power. ICRA also notes the susceptibility of earnings to volatility in exchange rates and low bargaining power with respect to raw material procurement prices.

The ratings, however, take comfort from STPL's longstanding experience in the Indian spinning industry, and its established relationships with its clientele, along with its growing export business in Bangladesh. The ratings continue to be supported by the company's location advantage due to its proximity to sources of raw material; diversification into spinning of different counts of yarn during FY2016, and its presence in the finer count range, which aids in better realizations and limits competition to a certain extent.

Going forward, STPL's ability to improve its profitability, capital structure and coverage indicators, while increasing its scale of operations will be the key rating sensitivities.

Key rating drivers

Credit Strengths

- » Long standing experience of the promoter group with over 50 years of experience in the spinning industry
- » Established relationships and repeat orders from agents in both domestic and export markets ensures revenue stability; increasing focus on the more profitable export market
- » Presence in finer count range limits competition and provides better realisations to an extent
- » Proximity to and long term association with suppliers

¹ For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications

Credit Weakness

- » Financial profile characterised by operating and net losses, high gearing and subdued coverage indicators during FY2016
- » Modest scale of operations restricts scale economics and financial flexibility, notwithstanding the year-on-year growth in operating income
- » Margins remain vulnerable to fluctuations in cotton prices
- » Limited pricing power on account of commoditized nature of product and fragmented industry structure

Description of key rating drivers highlighted above:

STPL's operating income grew by ~22% from Rs. 29.34 crore in FY2015 to Rs. 35.72 crore in FY2016, supported by an increase in sales volumes in the export market; although yarn realizations dropped over the last one year by around 20%. Lower realisations leading to increase in the average cost of raw materials purchased in FY2016 and inventory losses suffered by the company adversely impacted the operating margins of the company. Higher selling expenses led by higher export sales also constrained the profitability. Overall, the company registered operating and net margins of -0.97% and -3.99% in FY2016 as compared to 8.15% and -3.03% in FY2015. As on March 31, 2016, the company's total debt comprised Rs. 2.69 crore of term loans from banks and other financial institutions, with Rs. 3.50 crore of unsecured loans from the directors, Rs. 5.77 crore of working capital facilities in the form of cash credit and packing credit limits. The gearing level deteriorated from 2.85 times in FY2015 to 5.99 times in FY2016 due to increase in short term debt and erosion of net worth owing to net losses in the last two fiscals. Out of the Rs. 2.69 crore bank term loans, the company has repaid Rs. 1.52 crore in May 2016. During FY2017, the company has generated revenue worth Rs. 25 crore till December 31, 2016. For the full year, it is expected to report similar revenues as in FY2016 along with operating losses due to the effect of increase in cotton prices during H1 FY2017 and their non parity with the yarn prices.

Links to applicable Criteria

Corporate Credit Rating –A Note on Methodology

<http://www.icra.in/Files/Articles/2009-October-Rating-Corp-Rating-Methodology.pdf>

Rating Methodology for Indian Textiles Industry – Spinning

<http://www.icra.in/Files/Articles/Textiles%20Industry%20E2%80%93%20Rating%20Methodology.pdf>

About the Company:

Incorporated in 1972, Subadra Textile Private Limited (erstwhile Bhadra Spinning Mills Private Limited (1963-1971)) has been functioning under the directorship of Mr. V.S. Rajagopal since 1975. It is engaged in the business of manufacturing cotton yarn of counts ranging from 27s–100s for domestic as well as international markets. The company operates from Bangalore, with its manufacturing unit spread over 4.7 acres on Magadi Main Road, which has an installed capacity of 18,720 spindles with combed and auto-coned capacity. It also outsources manufacturing of polyester yarn on job-work basis to its subsidiary, Subadra Spinning Mills Private Limited, which was taken over by the company in December 2014. It has also diversified into the merchant exports business during FY2015.

STPL recorded a net loss of Rs. 1.42 crore on an operating income of Rs. 35.72 crore for the year ending March 31, 2016.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years:
Table: Rating History

Name of Instrument	Current Rating			Chronology of Rating History for Past 3 years		
	Type	Rated Amount (Rs. cr)	FY2017	FY2016	FY2015	FY2014
	Feb-17			Feb-16	Jun-14	-
Cash Credit	Long Term	4.00	[ICRA]B(Stable)	[ICRA]BB- (Stable)	[ICRA]B+	-
PCFC/ PSCFC	Short Term	3.50	[ICRA]A4	[ICRA]A4	[ICRA]A4	-
Unallocated	Long Term/ Short Term	1.50	[ICRA]B(Stable)/ [ICRA]A4	-	-	-
Term Loan				[ICRA]BB- (Stable)	[ICRA]B+	-
LC/BG				[ICRA]A4	[ICRA]A4	-

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1
Details of Instrument

Name of the instrument	Date of issuance	Coupon rate	Maturity Date	Size of the issue (Rs. Cr)	Current Rating and Outlook
Cash Credit				4.00	[ICRA]B (Stable)
PCFC/ PSCFC				3.50	[ICRA]A4
Unallocated				1.50	[ICRA]B (Stable)/ [ICRA]A4

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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.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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