

January 14, 2020

Sree Ananthalakshmi Textiles Private Limited: Ratings downgraded to [ICRA]B-(Stable)

Summary of rating action

| Instrument* | Previous Rated Amount (Rs. crore) | Current Rated Amount (Rs. crore) | Rating Action |
|--------------------------|-----------------------------------|----------------------------------|---|
| Fund based – Cash Credit | 3.00 | 3.00 | [ICRA]B-(Stable); downgraded from [ICRA]B(Stable) |
| Unallocated limits | 9.00 | - | NA |
| Total | 12.00 | 3.00 | |

*Instrument details are provided in Annexure-1

Rationale

The rating revision of Sree Ananthalakshmi Textiles Private Limited (SATPL) considers the company's deteriorated financial profile in FY2019 with significant decline in operating margins owing to high raw material costs, which resulted in deterioration in coverage indicators. SATPL's financial profile is stretched, characterised by net losses, high gearing, weak coverage indicators and stretched liquidity position. The extended credit period (for cotton supply) from the parent company, NSL Textiles Limited (NSLTL), supported its liquidity to an extent. The rating considers SATPL's modest scale of operations in a highly fragmented domestic cotton spinning industry characterised by intense competition and low product differentiation, which restricts its pricing flexibility and profitability. The rating, however, derives comfort from the company's extensive track record spanning more than three decades in the spinning industry and its established relationship with a diversified customer base resulting in repeat orders.

The Stable outlook on the [ICRA]B- rating reflects ICRA's opinion that SATPL will continue to benefit from its extensive track record of promoters and diversified customer base resulting in consistent revenue growth.

Key rating drivers and their description

Credit strengths

Established presence of over 30 years in spinning industry – SATPL is a subsidiary of NSLTL, which is part of the NSL Group. The parent company, NSLTL, has presence across ginning, spinning, weaving, processing and garmenting business resulting in integrated operations for the company. It has an established presence of over 30 years in the cotton spinning industry leading to established relationship with customers and suppliers.

Established customer base with repeat customers over the years – SATPL sells the yarn in the domestic market to traders and weavers with the main markets being Mumbai, Ichalkaranji, Palakol and Kolkata. The company's client mix has changed completely since NSLTL has taken over. The top buyers in FY2019 continue to be the repeat customers of SATPL. Overall, the contribution from top 10 clients remained moderate at around 67% in FY2019 and 69% in 8M FY2020.

Credit challenges

Weak financial profile characterised by net losses, high gearing, and weak coverage indicators – SATPL’s financial profile weakened in FY2019, with high raw material costs leading to significant decline in operating margin and deterioration of coverage indicators. It has been incurring net losses over the past three financial years on account of increase in raw material prices. SATPL’s gearing stood at 6.1 times and TOL/TNW at 10.4 times as on March 31, 2019 due to erosion of net worth worsening its capital structure. The coverage indicators were weak with interest coverage of 0.2 times, Total Debt/OPBIDTA of 42.1 times, NCA/Total Debt of -10.3% in FY2019.

Modest scale of operations – SATPL has modest scale of operations with installed capacity of 32,256 spindles. The operating income (OI) increased by 7% in FY2019 on the back of increased volumes and higher proportion of higher count yarn (60’s) sales.

Profitability exposed to fluctuations in raw material prices – The company’s profit margins are exposed to the fluctuation in raw material prices, which depend upon factors such as seasonality, monsoon condition, international and domestic demand and supply situation, export policy, etc.

Intense competition in industry – The spinning industry is highly fragmented and competitive with the presence of a large number of organised and unorganised players. Intense competition in the industry and commoditised nature of the product limits SATPL’s pricing flexibility and bargaining power.

Liquidity position: Stretched

The company’s liquidity is stretched owing to negative retained cash flows with significant decline in profitability. The average utilisation of working capital limits is high at over 85%, providing limited liquidity buffer (less than Rs. 0.5 crore). However, it does not have any repayment obligations or any major capex plans.

Rating sensitivities

Positive triggers – ICRA may upgrade the ratings if the company’s liquidity position improves with an improvement in profitability and coverage indicators.

Negative triggers – Negative pressure on rating may arise if a further decline profitability stretches the capital structure and coverage indicators and deteriorates liquidity position.

Analytical approach

| Analytical Approach | Comments |
|---------------------------------|--|
| Applicable Rating Methodologies | Corporate Credit Rating Methodology Rating Methodology for Entities in the Textiles Industry - Spinning |
| Parent/Group Support | Not applicable |
| Consolidation/Standalone | The rating is based on the standalone financial statements of the Sree Ananthalakshmi Textiles Private Limited |

About the company

Incorporated in 1982, SATPL was promoted by the promoters of The Andhra Sugars Ltd for manufacture of cotton yarn. Subsequently, SATPL was acquired by NSL Textiles Ltd in January 2012. The company commenced its operations in 1985

with 4,560 spindles and gradually expanded the capacity to 32,256 spindles. The manufacturing facility is located in Vadluru, West Godavari, Andhra Pradesh over an area of 23.88 acre.

In FY2019, it reported a net loss of Rs. 2.06 crore on an OI of Rs. 57.73 crore compared to a net loss of Rs. 0.83 crore on an OI of Rs. 53.95 crore in the previous year.

Key financial indicators (audited)

| | FY2018 | FY2019 |
|--|--------|--------|
| Operating Income (Rs. crore) | 53.95 | 57.73 |
| PAT (Rs. crore) | -0.83 | -2.06 |
| OPBDIT/OI (%) | 2.40% | 0.55% |
| RoCE (%) | 0.68% | -5.27% |
| Total Outside Liabilities/Tangible Net Worth (times) | 6.20 | 10.40 |
| Total Debt/OPBDIT (times) | 10.66 | 42.11 |
| Interest Coverage (times) | 0.81 | 0.17 |
| DSCR | 0.96 | 0.28 |

Source: Sree Ananthalakshmi Textiles Private Limited data; ICRA research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

| Instrument | Rating (FY2020) | | Rating History for the Past 3 Years | | | | | |
|----------------------|-----------------|--------------|-------------------------------------|----------------------------|--------------------|-----------------|--------------------|--------|
| | Type | Amount Rated | Amount Outstanding | Current Rating 14-Jan-2020 | FY2019 20-Feb-2019 | 05-Apr-2018 | FY2018 08-Jun-2017 | FY2017 |
| 1 Cash credit | Long Term | 3.00 | - | [ICRA]B-(Stable) | [ICRA]B(Stable) | [ICRA]B(Stable) | [ICRA]B(Stable) | - |
| 2 Unallocated limits | Long Term | 0.00 | - | NA | [ICRA]B(Stable) | [ICRA]B(Stable) | [ICRA]B(Stable) | - |

Amount in Rs. crore

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: Instrument details

| ISIN | Instrument Name | Date of Issuance / Sanction | Coupon Rate | Maturity Date | Amount Rated (Rs. crore) | Current Rating and Outlook |
|------|-----------------|--------------------------------|----------------|------------------|-----------------------------|-------------------------------|
| NA | Cash credit | NA | NA | NA | 3.00 | [ICRA]B-(Stable) |

Source: Sree Ananthalakshmi textiles Private Limited

Analyst Contacts

K Ravichandran

+91 44 4596 4301

ravichandran@icraindia.com

R Srinivasan

+91 44 4596 4315

r.srinivasan@icraindia.com

Nithya Debbadi

+91 40 4067 6515

nithya.debbadi@icraindia.com

Akshay Dangi

+91 40 4067 6528

akshay.dangi@icraindia.com

Relationship Contact

Jayanta Chatterjee

+91 80 4332 6401

jayantac@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

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For more information, visit www.icra.in

ICRA Limited

Corporate Office

Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002

Tel: +91 124 4545300

Email: info@icraindia.com

Website: www.icra.in

Registered Office

1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001

Tel: +91 11 23357940-50

Branches

Mumbai + (91 22) 24331046/53/62/74/86/87

Chennai + (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,

Kolkata + (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,

Bangalore + (91 80) 2559 7401/4049

Ahmedabad+ (91 79) 2658 4924/5049/2008

Hyderabad + (91 40) 2373 5061/7251

Pune + (91 20) 2556 0194/ 6606 9999

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