

Sri Venkata Lakshmi Narasimha Spinning Mills Private Limited

July 25, 2024

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long-term bank facilities	25.00 (Enhanced from 22.75)	CARE BB; Stable	Reaffirmed
Short-term bank facilities	2.00	CARE A4+	Reaffirmed
Long-term / Short-term bank facilities	-	-	Withdrawn

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

Reaffirmation of ratings assigned to bank facilities of Sri Venkata Lakshmi Narasimha Spinning Mills Private Limited (SVLN) are constrained by moderate capital structure and debt coverage metrics, delay in receipt of power subsidy, working capital intensive operations, inherent volatility associated with cotton prices and highly fragmented, competitive and cyclic nature of industry. However, ratings derive strength from experience and resourceful promoters, stable scale of operation in FY24, availability of captive power, favourable location, established clientele base and stable industry outlook with exception of improvement in FY25.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Improving overall gearing to below 1.50x.
- Achieving operating income of ₹100 crore with operating margin of 10%.
- Effectively managing working capital utilisation.

Negative factors

- Significantly elongating working capital cycle resulting in high working capital utilisation, exerting pressure on liquidity.
- Additional capex affecting the company's liquidity position.
- Declining scale of operations with income below ₹40 crore.

Analytical approach: Standalone

Outlook: Stable

CARE Ratings Limited (CARE Ratings) believes that the entity will continue to benefit from the extensive experience of promoters and management in the industry and established relationship with customers/suppliers.

Detailed description of key rating drivers:

Key weaknesses

Moderate capital structure and debt coverage metrics

SVLN's debt profile comprises term loan, cash credit and loan from promoters and others. Moderate capital structure is characterised by overall gearing of 1.82x as on March 31, 2024 (P.Y.E. 1.38x). Marginal increase in gearing, considering increase in working capital requirements. Debt coverage metrics remained moderate with total debt to gross cash accruals (TD/GCA) of 18.91x as on March 31, 2024, and profit before interest, lease rentals, depreciation, and taxation (PBILDT) interest coverage ratio at 1.45x in FY24 (FY23: 2.18).

Delay in receipt of power subsidy

The power supply scenario in Andhra Pradesh bettered after reorganisation of the state and the company is getting adequate power supply for its facility. The Government of Andhra Pradesh is extending a subsidy ₹2.00 per unit for spinning and modern ginning. As spinning is a power intensive activity, the power subsidy has helped the company reduce its power cost to a great extent. As on March 31, 2024, the power subsidiary receivables stand at ₹9.07 crores.

Highly fragmented, competitive, and cyclical nature of industry

The yarn manufacturing industry in India is highly fragmented and dominated by several small-scale units leading to high competition in the industry. Smaller standalone units are more vulnerable to intense competition and have limited pricing flexibility, which constrains their profitability as compared to larger integrated textile companies, who have better efficiencies and pricing power considering their scale of operations. Due to the industry's fragmented nature, the ability to pass on the increase in raw material prices to the end-customers is limited and usually with a time lag.

¹Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Inherent volatility associated with raw material prices and its impact on profitability

Cotton is the basic raw material for yarn production. Cotton prices depend on government policies, effect of monsoon among others and have been highly volatile in the past few years. The ability to transfer the volatility in raw material prices is limited, considering the low bargaining power of companies with its suppliers and customers, as prices of raw materials and finished goods depend on market conditions. Yarn being a commodity, its price is also volatile and movement in its prices can have an impact on the company's profitability margins.

Working capital intensive operations

Spinning is primarily a working capital intensive business as the raw material availability is seasonal, which results in high inventory holding period. The procurement is primarily on cash basis, which results in high working capital utilisation in the months of availability (October to April). However, SVLN enjoys credit period of 2-3 months based on the relationship with suppliers, which primarily includes ginning units. SVLN's operating cycle was marginally elongated to 206 days in FY24 from 150 days in FY23, considering higher inventory holding period of 299 days as against 288 days in FY23. Per the lender, working capital utilisation is ~85-90% in the last 12-months ended March 2024.

Key strengths**Experienced and resourceful promoters**

Sri Venkata Lakshmi Narasimha Spinning Mills Private Limited (SVLN) is promoted by Maddali V. P. Ravi Kiran (Managing Director) and Maddali Giridhara Rao (Executive Director). Maddali Giridhara Rao has over three decades of experience in the textile business and cotton ginning. Due to long experience of the directors, they can establish long-term relationship with clientele and this is expected to benefit the company. As on March 31, 2024, loan from directors stands at ₹6.93 crore.

Availability of captive power

SVLN has installed 1.50 MW solar plant in January 2023 for captive purpose. The solar plant generates ~21.90 lakh units a year, which will save SVLN's electricity cost by ~₹1.80 crore yearly, which will further help the company increase its profitability. The solar plant will cater ~18-20% of total electricity requirement.

Favourable location of plant

The company has locational advantage with manufacturing facilities at Guntur, which is one of the prominent cotton growing belts in Andhra Pradesh. The plant is also in proximity to Khammam and Warangal, prominent cotton growing belts in Telangana providing easy off-take.

Established Clientele Base:

The company's long track record of operations of over a decade and better management policies managed to establish fair relations with its existing and new clientele in the industry. SVLN sells its products through dealers to weavers and knitters through exports to Bangladesh and domestically at Andhra Pradesh, Maharashtra, and Tamil Nadu among others. Top ten customers of the company contributed ~49% of total sales in FY23-24.

Liquidity: Stretched

The company's liquidity profile remains stretched, considering negative cash flow from operations of ₹10.49 crore due to working capital intensive operations. The company earned GCA of ₹2.65 crore as tightly matched against repayment obligation of ₹2.00 crore in FY24 and with free cash and bank balance of ₹ 0.36 crore as on March 31, 2024. However, promoters are resourceful and can infuse funds, when required. As on March 2024, the unsecured loans stand at ₹17.33 crore (PY: 12.84 crore).

Assumptions/Covenants: Not applicable**Environment, social, and governance (ESG) risks: Not applicable****Applicable criteria**[Definition of Default](#)[Liquidity Analysis of Non-financial sector entities](#)[Rating Outlook and Rating Watch](#)[Manufacturing Companies](#)[Financial Ratios – Non financial Sector](#)[Withdrawal Policy](#)[Short Term Instruments](#)

About the company and industry

Industry classification

Macro-economic indicator	Sector	Industry	Basic industry
Consumer discretionary	Textiles	Textiles and apparels	Other textile products

Sri Venkata Lakshmi Narasimha Spinning Mills Private Limited (SVLN) was incorporated in 2005 and is promoted by Maddali VP Ravi Kiran (Managing Director) and Maddali Giridhara Rao (Executive Director). The company is engaged in manufacturing cotton yarn (60 counts) with a total installed capacity of 22800 spindles at its manufacturing unit at Guntur, Andhra Pradesh. The manufacturing process includes blending, carding, combing, drawing out, twisting and spinning. SVLN has customer base in Maharashtra, Telangana, Tamil Nadu and Andhra Pradesh. SVLN purchases raw cotton mainly from dealers in Andhra Pradesh and Telangana. SVLN exports cotton yarn through merchant exporters. In FY23, the company installed 1.5 MW solar rooftop for captive purpose.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	March 31, 2024 (P)
Total operating income	70.35	59.29	57.84
PBILDT	6.85	7.14	5.51
PAT	0.99	0.70	0.73
Overall gearing (times)	1.32	1.38	1.82
Interest coverage (times)	1.82	2.18	1.45

A: Audited UA: Unaudited; Note: these are latest available financial results

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Annexure-2

Covenants of rated instrument/facility: Annexure-3

Complexity level of instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	18.00	CARE BB; Stable
Fund-based - LT-Term Loan		-	-	30-09-2028	7.00	CARE BB; Stable
Fund-based - LT/ ST-Standby Line of Credit		-	-	-	0.00	Withdrawn
Non-fund-based - ST-ILC/FLC		-	-	-	2.00	CARE A4+

Annexure-2: Rating history for last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2024-2025	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022
1	Fund-based - LT-Cash Credit	LT	-	-	-	-	-	1)Withdrawn (13-Oct-21) 2)CARE BB; Stable; ISSUER NOT COOPERATING* (13-Oct-21)
2	Non-fund-based - ST-Standby Line of Credit	ST	-	-	-	-	-	1)CARE A4; ISSUER NOT COOPERATING* (13-Oct-21) 2)Withdrawn (13-Oct-21)
3	Fund-based - LT-Term Loan	LT	-	-	-	-	-	1)Withdrawn (13-Oct-21) 2)CARE BB; Stable; ISSUER NOT COOPERATING* (13-Oct-21)
4	Non-fund-based - ST-Bank Guarantee	ST	-	-	-	-	-	1)CARE A4; ISSUER NOT COOPERATING* (13-Oct-21) 2)Withdrawn (13-Oct-21)
5	Non-fund-based - ST-ILC/FLC	ST	-	-	-	-	-	1)Withdrawn (13-Oct-21) 2)CARE A4; ISSUER NOT COOPERATING* (13-Oct-21)
6	Fund-based - LT-Cash Credit	LT	-	-	-	-	-	1)CARE BB; Stable; ISSUER NOT COOPERATING* (13-Oct-21) 2)Withdrawn (13-Oct-21)

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2024-2025	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022
7	Fund-based - LT/ST-Standby Line of Credit	LT/ST	-	-	-	1)CARE BB; Stable / CARE A4+ (25-Jul-23)	-	-
8	Fund-based - LT-Cash Credit	LT	18.00	CARE BB; Stable	-	1)CARE BB; Stable (25-Jul-23)	-	-
9	Non-fund-based - ST-ILC/FLC	ST	2.00	CARE A4+	-	1)CARE A4+ (25-Jul-23)	-	-
10	Fund-based - LT-Term Loan	LT	7.00	CARE BB; Stable	-	1)CARE BB; Stable (25-Jul-23)	-	-

*Issuer did not cooperate; based on best available information.

LT: Long term; ST: Short term; LT/ST: Long term/Short term

Annexure-3: Detailed explanation of covenants of rated instruments/facilities: Not applicable

Annexure-4: Complexity level of instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Cash Credit	Simple
2	Fund-based - LT-Term Loan	Simple
3	Fund-based - LT/ ST-Standby Line of Credit	Simple
4	Non-fund-based - ST-ILC/FLC	Simple

Annexure-5: Lender details

To view lender-wise details of bank facilities, please [click here](#)

Note on complexity levels of rated instruments: CARE Ratings has classified instruments rated by it based on complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for clarifications.

Contact us

Media Contact Mradul Mishra Director CARE Ratings Limited Phone: +91-22-6754 3596 E-mail: mradul.mishra@careedge.in	Analytical Contacts Karthik Raj K Director CARE Ratings Limited Phone: +91-80- 46625555 E-mail: karthik.raj@careedge.in
Relationship Contact Saikat Roy Senior Director CARE Ratings Limited Phone: 91 22 6754 3404 E-mail: saikat.roy@careedge.in	Niraj Thorat Assistant Director CARE Ratings Limited Phone: 914040102030 E-mail: Niraj.Thorat@careedge.in Mou Ghanty Analyst CARE Ratings Limited E-mail: Mou.ghanty@careedge.in

About us:

Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

Disclaimer:

The ratings issued by CARE Ratings are opinions on the likelihood of timely payment of the obligations under the rated instrument and are not recommendations to sanction, renew, disburse, or recall the concerned bank facilities or to buy, sell, or hold any security. These ratings do not convey suitability or price for the investor. The agency does not constitute an audit on the rated entity. CARE Ratings has based its ratings/outlook based on information obtained from reliable and credible sources. CARE Ratings does not, however, guarantee the accuracy, adequacy, or completeness of any information and is not responsible for any errors or omissions and the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE Ratings have paid a credit rating fee, based on the amount and type of bank facilities/instruments. CARE Ratings or its subsidiaries/associates may also be involved with other commercial transactions with the entity. In case of partnership/proprietary concerns, the rating/outlook assigned by CARE Ratings is, inter-alia, based on the capital deployed by the partners/proprietors and the current financial strength of the firm. The ratings/outlook may change in case of withdrawal of capital, or the unsecured loans brought in by the partners/proprietors in addition to the financial performance and other relevant factors. CARE Ratings is not responsible for any errors and states that it has no financial liability whatsoever to the users of the ratings of CARE Ratings. The ratings of CARE Ratings do not factor in any rating-related trigger clauses as per the terms of the facilities/instruments, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and triggered, the ratings may see volatility and sharp downgrades.

**For the detailed Rationale Report and subscription information,
please visit www.careedge.in**