

Thatavarthi Apparels Private Limited

November 22, 2022

Rating

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long Term Bank Facilities	59.08 (Enhanced from 33.52)	CARE BBB-; Stable (Triple B Minus; Outlook: Stable)	Reaffirmed
Total Bank Facilities	59.08 (₹ Fifty-Nine Crore and Eight Lakhs Only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The reaffirmation in the rating assigned to the bank facilities of Thatavarthi Apparels Private Limited (TAPL) continues to derive strength from experienced and resourceful promoters, satisfactory financial risk profile, healthy relationship with customer and supplier, strong brand presence in the market and stable industry outlook. The rating however remains constrained by working capital intensive nature of operations, exposure to volatility of raw material prices, highly fragmented and competitive nature of business.

Rating Sensitivities

Positive Factors - Factors that could lead to positive rating action/upgrade:

- ✓ Increase in revenue by more than 35% and PBILDT margins by more than 10%
- ✓ Improved operating cycle to below 125 days, strengthening of cash flows from operations
- ✓ TD/GCA improving to 4x or below

Negative Factors- Factors that could lead to negative rating action/downgrade:

- ✗ Any un-envisaged incremental borrowings, deteriorating its overall gearing ratio over 1.50x on a continuous basis
- ✗ Notable decline in TOI and PBILDT margin falling below 6%

Detailed description of the key rating drivers

Key Rating Strengths

Experienced and resourceful promoters

TAPL belongs to Vilan Group which is promoted by Mr. T Chandra Shekar Rao. Mr. Rao has about four decades of experience in textile industry. He takes care of the operational activities of company. The company also derives strength from other directors and management team who has vast experience in textile industry. TAPL has been continuously receiving support both from its promoters and group companies both in terms of management expertise and infusion of funds as and when required.

Healthy relationship with customer and supplier

The company has established business operations of more than two decades in the textile industry resulted in healthy relationship with customer and supplier. The company has diversified customer and supplier base spread over major states of India.

Strong brand presence in the market

TAPL supplies its products under the brand name 'Vilan' which has good presence across Andhra Pradesh market. The company has a long-standing presence in Andhra Pradesh and Telangana of more than two decades and has ramped up operations to cater to various cities throughout India. The group has established relationship with distributors and traders through which about 90-95% of revenue is derived.

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

Satisfactory financial performance and credit risk profile

The scale of operations of the company remained stable at Rs.151 crore (PY:148 crore) on account of stable demand from end customers. However, the profitability margins marginally declined marked by PBILDT and PAT margin stood at 7.95% and 0.86% respectively (PY:9.34% and 1.30%) on account of increase in raw material prices.

The capital structure of the company continues to remain comfortable marked by overall gearing at 0.49x as on March 31, 2022 on account of moderation of debt levels along with improved network.

The coverage indicators remained moderate marked by TD/GCA and PBILDT interest coverage stood at 7.28x and 1.59x respectively in FY22 (PY:7.87x and 1.50x).

Stable industry

The Indian textile and apparel industry is expected to grow at 10% CAGR from 2019-20 to reach US\$ 190 billion by 2025-26. India has a 4% share of the global trade in textiles and apparel. India is the world's largest producer of cotton. Domestic consumption for the 2021-22 cotton season is estimated to be at 338 lakh bales. Cotton production in India is projected to reach 7.2 million tonnes (~43 million bales of 170 kg each) by 2030, driven by increasing demand from consumers...The future of the Indian textiles industry looks promising, buoyed by strong domestic consumption as well as export demand. India is working on various major initiatives to boost its technical textile industry. Owing to the pandemic, the demand for technical textiles in the form of PPE suits and equipment is on the rise. The government is supporting the sector through funding and machinery sponsoring. With consumerism and disposable income on the rise, the retail sector has experienced a rapid growth in the past decade with the entry of several international players like Marks & Spencer, Guess and Next into the Indian market. The growth in textiles will be driven by growing household income, increasing population and increasing demand by sectors like housing, hospitality, healthcare, etc.

Key Rating Weakness**Working capital intensive nature of business**

The operating cycle of the company continues to remain stretched i.e., 148 days as the company needs to maintain high level of inventory at various stages of process and to meet the customer requirements. However, the average collection period stood comfortable at 70 days and company makes the payment to its suppliers in about 30-45 days

Exposure to volatility of raw material prices

Cotton yarn, the key raw material, has exhibited high volatility in prices in the past and in turn impacts the profitability of the company. The prices of cotton and yarn are governed by various factors such as area under cultivation, monsoon, export quota by the government, international demand-supply situation etc. Furthermore, any abrupt change in cotton prices due to supply-demand scenario and government regulations of changes in Minimum Support Price (MSP) can lead to distortion of prices and affect the profitability of players across the cotton value chain. The business and financial profile can be adversely impacted on account of presence of inherent risk of susceptibility of volatility in raw cotton prices, since the industry is highly commoditized

Highly fragmented and competitive nature of industry

Owing to presence of large numbers of players operating in the manufacturing of yarn industry with low degree of product differentiation, the industry remained highly competitive and fragmented in nature limiting bargaining power of players in this industry. Moreover, the increase in the competition from other emerging markets in the Asia also puts additional pressure on the revenue and profitability.

Liquidity: Adequate

Liquidity is marked by adequate accruals against negligible long term debt repayment obligations. The promoters are resourceful and infuse need based funds. The average utilisation of the company remained at 85% for the last 12 months ended September 2022. The current ratio of the company remained satisfactory at 1.58x as on March 31, 2022.

Analytical Approach: Standalone, factoring linkages with group (*changed from earlier approach which was consolidated*)

Applicable Criteria

[Policy on default recognition](#)

[Factoring Linkages Parent Sub JV Group](#)

[Financial Ratios – Non financial Sector](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Credit Watch](#)

[Cotton Textile](#)

[Manufacturing Companies](#)

[Policy on Withdrawal of Ratings](#)

About the Company

Incorporated in 1999, Thatavarthi Apparels Private Limited (TAPL) (Erstwhile Thatavarthi Apparels Limited) was promoted by Mr. T Chandra Sekhar Rao. TAPL is engaged in cotton yarn manufacturing. TAPL has its manufacturing facility located at Guntur, Andhra Pradesh with an installed capacity of 21,000 spindles and manufactures cotton yarn of counts ranging from 24's to 60's. Seshasayee Knittings Private Ltd (SKPL) is the another major company of the VILAN Group and is also the holding company of TAPL (SKPL holds 67.65% in TAPL)

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (UA)	H1FY23 (Prov.)
Total operating income	148.79	151.48	50.56
PBILDT	13.89	12.04	5.45
PAT	1.94	1.31	0.69
Overall gearing (times)	0.55	0.49	NA
Interest coverage (times)	1.50	1.59	1.72

*A-Audited; UA-Unaudited; Prov.-Provisional; NA-Not available

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure 4

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		-	-	-	46.00	CARE BBB-; Stable
Fund-based - LT-Term Loan		-	-	Aug 2031	13.08	CARE BBB-; Stable

Annexure-2: Rating history for the 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 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based - LT-Term Loan	LT	13.08	CARE BBB-; Stable	-	1)CARE BBB-; Stable (22-Feb-22)	1)CARE BBB-; Stable (24-Mar-21)	1)CARE BB+; Stable (02-Mar-20)
2	Fund-based - LT-Cash Credit	LT	46.00	CARE BBB-; Stable	-	1)CARE BBB-; Stable (22-Feb-22)	1)CARE BBB-; Stable (24-Mar-21)	1)CARE BB+; Stable (02-Mar-20)
3	Fund-based - ST-Others	ST	-	-	-	-	1)Withdrawn (24-Mar-21)	1)CARE A4+ (02-Mar-20)
4	Non-fund-based - ST-Bank Guarantee	ST	-	-	-	-	1)Withdrawn (24-Mar-21)	1)CARE A4+ (02-Mar-20)
5	Non-fund-based - ST-Standby Line of Credit	ST	-	-	-	-	1)Withdrawn (24-Mar-21)	1)CARE A4+ (02-Mar-20)

*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities:NA**Annexure-4: Complexity level of various instruments rated for this company**

Sr. No.	Name of Instrument	Complexity Level
1	Fund-based - LT-Cash Credit	Simple
2	Fund-based - LT-Term Loan	Simple

Annexure-5: Bank lender details for this companyTo view the lender wise details of bank facilities please [click here](#)

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

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