Vasantha Industries Limited

February 23, 2021

Ratings

Facilities/Instruments	Amount (Rs. crore)	Ratings	Rating Action
Long Term Bank Facilities	181.27 (Enhanced from 173.12)	CARE BBB-; Stable (Triple B Minus; Outlook: Stable)	Reaffirmed
Short Term Bank Facilities	23.07	CARE A3 (A Three)	Reaffirmed
Total Bank Facilities	**204.34 (Rs. Two Hundred Four Crore and Thirty-Four Lakhs Only)**		

Details of facilities in Annexure-I

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Vasantha Industries Limited (VIL) continue to derive strength from extensive experience of resourceful promoters providing persistent support in the form of infusion of funds, established relationship with key customers and suppliers, reduction in supplier concentration risk, eligibility of power subsidy from State Government of Andhra Pradesh and interest subsidy under Technology Up gradation Fund Scheme (TUFS) albeit pending receipt, commercialization of captive power plant and benefits derived therefrom and stable industry outlook. The ratings also consider the significant improvement in profitability margin during H1FY21(refers to the period April 01 to September 30, 2021) .The ratings, however, are tempered by decline in scale of operations and profitability margin during FY20 (refers to the period April 01 to March 31, 2020) , moderately leveraged capital structure with weakened debt coverage indicators, working capital intensive nature of operations, exposure to foreign currency fluctuations, impact of COVID -19 on the operations and highly regulated nature of the textile industry.

Key Sensitivity

Positive Factor

- To maintain the scale of operations above Rs 400 crore while garnering PBILDT margin above 14.00 % on sustained basis.
- Overall gearing going below 0.75x on sustained basis.

Negative Factor

- Overall gearing deteriorating above 2.00x in any of the projected years
- Increase in inventory period above 200 days

Detail description of Key rating drivers

Key Rating Strengths

Experienced and resourceful promoters with long track record of operations

The Company is promoted by Mr. V Venkata Kishna Prasad (Managing Director), who has more than two decades of experience in real estate and construction industry. He ventured into textile industry through VIL in 2005, since then he is successfully managing the company. Promoters have been supporting the company by way of infusing funds as and when required to support the operations. During FY20 the promoters have infused funds of Rs 7.55 crore in the form of unsecured loan.

Established track record of the company coupled with diversified customer base

Being incorporated in 2005, the company has established and long track record in the textile industry. Over the years of its presence in the industry, the company has established healthy relationship with many players such as China Ctexic Corporation, Sri Nukala Rama koteswara Rao Textiles Pvt Limited, Xiamen ITG Group Corp Ltd and many others. The revenue concentration from the top 5 clients has decreased from 50.26% of sales in FY19 to 28.22% of sales in FY20 (30.24 % of Sales in 9MFY21). The decline in client concentration is on account of decrease in orders from China.

Established long term relationship with suppliers coupled with reduction in supplier concentration risk.

The company facilities are located in Guntur district which is one of the major cottons growing areas in Andhra Pradesh. The units are also well connected to Khammam & Warangal, prominent cotton growing belts in Andhra Pradesh. The Company procures cotton bales from local markets and farmers. Over the years, the company has established a long-term relationship with its key suppliers. The company is reducing the supplier and geographic concentration risk by procuring raw materials from different states instead of purchasing everything from Andhra Pradesh (AP) and Telangana (TL). In FY20, the supplier concentration risk reduced as the top five suppliers contributed 23.04% of purchase compare to 26.08 % of purchase in FY19 (66.06 % in FY18) on account of purchase of raw materials from Maharashtra and Northern states instead of Andhra Pradesh and Telangana as the quality of Maharashtra cotton is superior and also cheaper compare to Andhra Pradesh and Telangana.

Subsidies under TUF and incentives from Andhra Pradesh state government under Industries Investment Promotion Policy (IIPP) albeit pending receipt

The company majority of the term loans are covered under Technology Upgradation Fund (TUF) scheme (Government of India- Textile Ministry) which entitles the company to get interest subsidy on term loans, the company also receives electricity subsidy from Government of Andhra Pradesh, and however, the company receives the subsidies with delay. The TUF subsidy and electrical subsidy receivable from government as on March 31, 2020 was Rs.25.00 Crore and Rs 24.30 crore respectively as against Rs. 20.35 crore and Rs 27.84 crore respectively as on March 31, 2019.

Commercialization of captive power plant and benefits derived therefrom

The company has setup 8MW solar power plan during FY21 for its captive consumption at Thimmapuram Village, Edlapadu Mandal, Guntur District, Andhra Pradesh, India to meet part of its total power consumption. The total project cost of the solar unit was expected to be Rs 29.01 crore however due to change in specification it reduced to Rs22.49 crore which is funded by term loan of Rs 15.24 crore and equity from promoter of Rs 7.25 crore. The aggregate power consumption of all the units of the company for the F20 was 64 million units and the average power cost is worked out at Rs 5.75 per unit. The solar power plant has commenced its operations from August 2020 and the company is deriving the benefit of about 20% of its requirement being met through the solar power. The proposed solar power plant is expected to generate 12 million units during FY22 and the remaining requirement will be sourced from electricity board.

Industry outlook – Stable

Easing of restrictions is expected to provide some support to the domestic cotton prices in coming months. However, the new crop arrival of CS 2020-21 will restrict any major improvement in prices. Even when cotton consumption in India is expected to be better on y-o-y basis in CS 2020-21 backed by likely pick up in normal activities, higher domestic cotton stocks will weigh on prices. Similarly, elevated cotton stocks in the global market are estimated to constrain growth in international cotton prices during CS 2020-21 (beginning August 2020). As per the United States Department of Agriculture (USDA), the stock to use percentage for CS 2020-21 is estimated at a high level of 92%, 5.2% y-o-y fall. The stock to use percentage however had averaged at 75.8% during the period 2015-16 to 2019-20.

Going ahead, improvement in cotton yarn production can be expected on sequential basis backed by various unlock guidelines in the domestic market. The output however is expected to decline by around 18%-20% on a yearly basis as demand will take time to reach pre Covid-19 level. Increase in economic activities on account of relaxations in restrictions in the international market is likely to aid India's cotton yarn outbound shipments. In case higher cotton yarn exports from India continue to Bangladesh, it will augur well for overall cotton yarn exports during FY21 given the Covid-19 situation.

Improvement in profitability margin during H1FY21

During H1FY21, the company generated revenue of Rs 104.89 crore (Rs 180.66 crore during 9MFY21) with PBILDT margin of 17.96%. The improvement in margin is on account of increase in yarn realisation prices from Rs. 160 per kg in FY20 to Rs. 240 -250 per kg during H1FY21. The increase in realisation is on account of increase in demand from USA and European countries cotton clothes in India as earlier they were purchasing the finished cotton clothes from China which is now shifting towards India and Bangladesh.

Key Rating Weaknesses

Decline in scale of operations and profitability margin during FY20

The scale of operations of the company as indicated by total operating income (TOI) has exhibited healthy and continuous growth trend during FY17-19, however during FY20, the TOI of the company declined by 9.27 % to Rs 343.51 crore from Rs 379.87 crore in FY19. The decline in operations is on account of decrease in export to China in FY20 due to China's coronavirus shutdown as Chinese textile factories have halted operations from January 01, 2020. The export is also affected by United States – China trade war and competition from Vietnam for supply of yarn to Chinese market. Further, the company generated sales of only Rs 180.66 crore in 9MFY21 mainly due to complete shutdown of Maharashtra state due to wide spread of COVID -19 and the majority of the customer of the company comes from Maharashtra. The PBILDT margin of the company remained moderate but deteriorated marginally by 76 bps from 8.04% during FY19 to 7.28 % on account of increase in power and fuel and employee cost during FY20. The PAT margin of the company improved by 28 bps to 0.90 % in FY20 from 0.62% in FY19 but remained low due to high Interest and depreciation expense.

Moderately leveraged capital structure with weakened debt coverage indicators

The debt profile of the company comprises of term loan and unsecured loan undertaken to increase the capacity of plant and working capital borrowing. The capital structure of the company marked by overall gearing improved from 1.70x as on March 31, 2019 to 1.52x as on March 31, 2020 on account of decrease in total debt from Rs 224.51 crore as on March 31, 2019 to Rs 205.58 crore as on March 31, 2020. The decrease in total debt is on account of decrease in term loan from Rs 79.21 crore in FY19 to Rs 64.36 crore in FY19. The company has also borrowed working capital facility to manage its working capital requirement which stood at 98.58 crore as on March 31, 2020 (Including Rs 8.30 Standby line of credit and Rs90.28 crore cash credit facility).The total debt to GCA of company deteriorated from 15.17 x in FY19 to 20.24x in FY20 on account of decrease in GCA level due to increase in cost of sales from Rs 349.32 crore in FY19 (91.96 % of TOI) to Rs 31.85 crore in FY20 (92.72% of TOI). The interest coverage ratio of the company also deteriorated due to same reason in FY20 to 1.68x from 1.94x in FY19

Working capital intensive nature of operations
The company operates in working capital intensive nature of operations. The operating cycle of the company improved to 85 days in FY20 from 88 days in FY19 on account of increased in creditor's period from 61 days in FY19 to 68 days in FY20. The inventory holding period of the company remained high between 128 -137days as the company needs to maintain the stock of cotton as it is available only during November to June being seasonal in nature. With most of the debtors being backed by Letter of credit, there is no major counter party credit risk involved and there are no bad debts and the receivables position remained stable at 22 days in FY20 (21 days in FY19). The company prefer to purchase raw materials on cash basis to avail cash discount which led to high utilisation of working capital limits. The average working capital utilization for last 12 months ending on December 31, 2020 was high at 89.69%.

Exposure to foreign currency fluctuations
The company exports majorly to China which got disrupted during FY20 due to US- China trade war, competition from Vietnam and impact of COVID -19 on textile industry of China. The export of the company is declined due to the same reasons from 47.93% of gross sales in FY19 to 13.63% in FY20 (30.88% of gross sales in 9MFY21). With a substantial amount of revenue from exports; VIL is exposed to foreign currency fluctuation risks. In general, the company would benefit from rupee depreciation and would be affected by rupee appreciation. The company has a policy of hedging 100% of foreign exchange contract as and when it is entered.

Impact of COVID-19 on the operations of the company
The operations of the industry is disrupted due to impact of COVID 19 as the government of India has imposed lock down to curb the spread of COVID -19 pandemic from March 22, 2020 to June 08, 2020. The operations of the company were completely shut down till May, 2020 and after that the company started operation with 50-60 % capacity till June 2020. The sales of the company were affected as major customers for the company comes from Maharashtra and China which were among the worst affected areas. The company has availed moratorium period from March – August 2020 for term loan and interest due on working capital facility. The term loan installment has been deferred as last two installments of term loan and the interest on term loan and working facility is converted into FITL which is already paid. The company has also availed Guaranteed Emergency Credit Line (GECL) of Rs 32.00 crore during FY21 from banks in order to meet its operational working capital requirement.

Inherent cyclicality associated with the textile industry, volatile cotton prices due to impact of government policies and climatic conditions
The cotton prices in India are highly regulated by the government through MSP (Minimum Support Price) fixed by government, though due to huge demand-supply mismatch the prices have rarely been below the MSP. Moreover, exports of cotton are also regulated by government through quota systems to suffice domestic demand for cotton. Hence, any adverse change in government policy, i.e., higher quota for any particular year, ban on the cotton or cotton yarn export may negatively impact the prices of raw cotton in domestic market and could result in lower realizations and profit.

Liquidity analysis - Adequate
The Company has adequate liquidity position with satisfactory cash accruals generation. The current ratio and quick ratio of the company stood at 1.15x and 0.55x as on March 31, 2020. The interest coverage indicator of the company also stood moderate at 1.68 times during FY20. Considering the cash accrual which the company generated in FY20, expected generation of cash accruals during FY21, and the term debt obligations of Rs 10.51 crore along with interest obligations, the cash accruals are expected to be adequate. The term loan installment has been deferred as last two installments of term loan and the interest on term loan and working facility is converted into FITL which is already paid. The company has also availed Guaranteed Emergency Credit Line (GECL) of Rs 32.00 crore during FY21 from banks in order to meet its operational working capital requirement.

Analytical approach: Standalone
Applicable criteria –
Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings
Rating Methodology-Manufacturing Companies- Cotton Textiles
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
Financial ratios - Non-Financial Sector
Liquidity Analysis – Non Financial Sector

About the company
The company is engaged in the production of cotton yarn and corrugated boards with its spinning facilities located in Guntur District. The company commenced operations in 2007 with an installed capacity of 26,400 spindles, and over the period, the company increased its spindling capacity to 105,000 spindles as on March 31, 2019. VIL produces cotton yarn in counts

ranging from 30s to 60s for both knitting as well as weaving segments with combed and carded variety. Besides presence in the cotton spinning industry, the company has corrugation capacity (Kraft paper manufacturing) of 200 tons per day.

Brief Financials (Rs. crore)	FY19 (A)	F20 (A)
Total operating income	379.87	343.51
PBILDT	30.54	24.99
PAT	2.37	3.07
Overall gearing (times)	1.70	1.52
Interest coverage (times)	1.94	1.68

Status of non-cooperation with previous CRA: The ratings assigned to the bank facilities of Vasantha Industries Limited (erstwhile Vasantha Spinners Limited) have been suspended by ICRA Ltd vide its press release dated February 03, 2015 on account lack of adequate information to carry out rating surveillance.

Any other information: NA

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	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	March 31, 2029	91.27	CARE BBB-; Stable
Fund-based - LT-Cash Credit	-	-	-	90.00	CARE BBB-; Stable
Non-fund-based - ST-Forward Contract	-	-	-	1.37	CARE A3
Fund-based - ST-Standby Line of Credit	-	-	-	8.30	CARE A3
Non-fund-based - ST-Bank Guarantees	-	-	-	3.40	CARE A3
Non-fund-based - ST-Letter of credit	-	-	-	10.00	CARE A3

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Term Loan	LT	91.27	CARE BBB-; Stable	-	1)CARE BBB-; Stable (23-Mar-20) 2)CARE BBB-; Stable (04-Apr-19)	1)CARE BBB-; Stable (05-Apr-18)	-
2.	Fund-based - LT-Cash Credit	LT	90.00	CARE BBB-; Stable	-	1)CARE BBB-; Stable (23-Mar-20) 2)CARE BBB-; Stable (04-Apr-19)	1)CARE BBB-; Stable (05-Apr-18)	-
3.	Non-fund-based - ST-Forward Contract	ST	1.37	CARE A3	-	1)CARE A3 (23-Mar-20) 2)CARE A3 (04-Apr-19)	1)CARE A3 (05-Apr-18)	-
4.	Fund-based - ST-Standby Line of Credit	ST	8.30	CARE A3	-	1)CARE A3 (23-Mar-20) 2)CARE A3 (04-Apr-19)	1)CARE A3 (05-Apr-18)	-
5.	Non-fund-based - ST-Bank Guarantees	ST	3.40	CARE A3	-	1)CARE A3 (23-Mar-20) 2)CARE A3 (04-Apr-19)	1)CARE A3 (05-Apr-18)	-
6.	Non-fund-based - ST-Letter of credit	ST	10.00	CARE A3	-	1)CARE A3 (23-Mar-20) 2)CARE A3 (04-Apr-19)	1)CARE A3 (05-Apr-18)	-

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities- NA

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

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 - ST-Standby Line of Credit	Simple
4.	Non-fund-based - ST-Bank Guarantees	Simple
5.	Non-fund-based - ST-Forward Contract	Simple
6.	Non-fund-based - ST-Letter of credit	Simple

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

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