Thatavarthi Apparels Private Limited

March 24, 2021

Ratings

Facilities/Instruments	**Amount (Rs. crore)**	**Ratings**	**Rating Action**
Long Term Bank Facilities	35.52 (Enhanced from 25.87)	CARE BBB-; Stable (Triple B Minus; Outlook: Stable)	Revised from CARE BB+; Stable (Double B Plus; Outlook: Stable)
Short Term Bank Facilities	-	-	Withdrawn
Total Bank Facilities	**35.52 (Rs. Thirty-Five Crore and Fifty-Two Lakhs Only)**		

Details of facilities in Annexure-I

Detailed Rationale& Key Rating Drivers

CARE, has taken a consolidated view of Seshasayee Knittings Private Limited (SKPL) and Thatavarthi Apparels Private Limited (TAPL) as companies operate in the similar line of business, operate under common management and managed by common promoters, have operational linkages and fungible cash flow.

The revision in the long-term rating assigned to the bank facilities of Thatavarthi Apparels Private Limited (TAPL) at consolidated level takes into account of Improvement of capital structure and debt coverage indicators during FY20 (refers to the period April 1 to March 31), and moderate scale of operations coupled with improvement in operating margin during FY20. Furthermore, the ratings continue to draw comfort from experienced and resourceful promoter along with group support, established relationship with customers and suppliers, established market presence with brand recall and geographically diversified revenue profile. The rating strengths are, however, partially offset by working capital intensive nature of the business with elongated operating cycle, impact of COVID-19 on the operations of company, intense competition in the industry, highly competitive and inherent cyclical industry.

Rating Sensitivities

Positive -

- To improve scale of operations above Rs 250 crore and maintain PBILDT margin above 13 % and PAT margin above 4.00% on sustained basis.

Negative –

- Overall gearing deteriorating above 1.50x in any of the projected years
- Increase in inventory period above 200 days

Detail description of key rating drivers

Comfortable capital structure with improvement in debt-coverage indicators

The debt profile at consolidated level comprises term loan, working capital bank borrowings and unsecured loans from the promoter. However, the unsecured loans at consolidated level aggregating Rs.45.67 crore are subordinated to bank facilities, as per the terms of sanction letter and the promoters have provided an undertaking with regard to the same. The total debt of the company at consolidated level decreased from Rs 50.92 crore as on March 31, 2019 to Rs 42.02crore as on March 31, 2020 (UA) on account of repayment of term loan. The overall gearing of the company stood below unity and improved from 0.96x as on March 31, 2019 to 0.63x as on March 31, 2020 on account of increase in net worth from Rs 53.27 crore as on March 31, 2019 to Rs 66.94 crore as on March 31, 2020 due to addition of unsecured loan of amounting Rs 11.16 crore as quasi equity. The debt coverage indicators such as total debt to GCA at consolidated level improved to 9.27x as on March 31, 2020 from 10.18x as on March 31, 2019 on account of decrease in total debt. The PBILDT Interest coverage at consolidated level has also declined due to increase in interest expense from 1.56x during FY19 to 1.48 x in FY20.

Moderate scale of operation coupled with improvement in operating margin during FY20

The scale of operations at consolidated level as indicated by total operating income (TOI) has remained moderate but declined by 8.49 % in FY20 to Rs 130.51 crore from Rs 143.18 crore in FY19 on account of decline in export from Rs 49.72 crore in FY19 to Rs 0.50 crore in FY20 (UA) due to significant decline in margins and demand because of on-going US-China trade and also due to tough competition from Vietnam and Bangladesh. Despite decline in TOI , the PBILDT margin improved by 161 bps from 10.12% in FY19 to 11.73 % FY20 (UA) on account of better realisation from inter-state sale and also due to decline in power and fuel cost from Rs 5.94 crore in FY19 to Rs 3.64 crore in FY20 (UA) due to electric subsidy of Rs 2.00 per unit. The PAT margin of the company deteriorated marginally from 1.28 % in FY19 to 1.09 % in FY20 (UA) on account of increase in interest expense from Rs 9.27 crore in FY19 to Rs 10.33 crore in FY20.

Experienced and resourceful promoters along with group support

The company belongs to Vilan Group which is promoted by Mr. T Chandra Shekar Rao. TAPL is Flagship Company of Vilan Group. 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. Vilan at its group level operates through five companies which are engaged in the manufacturing of hosiery garments. SKPL has been continuously receiving support both from its group companies and its promoters both in terms of management expertise and also through infusion of funds as and when required. *Till March 31, FY20, promoter directors of the company at consolidated level have infused Rs.45.67 crore in the form of unsecured loan to support its growing operations.*

Established relationship with customer and supplier

The group has been able to derive benefits from long standing presence in the industry and therefore has been able to establish relationship with both suppliers and customers. The group has been able to garner repeat orders from its customers on account of the same. Further group suppliers include Sri Balaji Cotton Industries, Sri Kaveri Cotton Industries, Sri Salasar Balaji Agro Tech Pvt Ltd, Mahalaxmi Cotton Industries, Malla Reddy Cotton Industries, etc, with whom the group has been dealing for past more than a decade.

Established market presence with brand recall

The company belongs to Vilan group. The company has a long standing presence in Andhra Pradesh and Telangana of over three decades and has ramped up operations to cater to various parts of the city throughout India. The group has established relationship with distributors and retailers through which about 90-95% of revenue is derived. Backed by well-known brand 'Vilan', the company has more than 50 distributors (pan India) and has been adding up new distributors.

Geographically diversified revenue profile

The company at consolidated level has a geographically diversified revenue profile as the company undertakes intra state as well as inter state sales. Intra state sales constituted 36.71% of total sales for FY20 (29.81% for FY19) whereas 62.89% of revenue was derived from inter-state during FY20 (as against 34.92% in FY19). The contribution of export sales has significantly decline from 34.72 % of total sales in FY19 to 0.38% in FY20 (UA) on account of decrease in margins due to on-going US-China trade war and competition from Vietnam . Further, the company has an established distribution network of 50 distributors (pan India) and operates through 5 stores located in Vijayawada.

Elongated operating cycle

The company operates in working capital intensive industry and at consolidated level stocks adequate finished goods to meet needs for showroom and raw materials to meet its manufacturing requirement. The average inventory at consolidated level has deteriorated from 169 days in FY19 to 196 days in FY20 as the operation were shut down from March 22, 2020 which led to unsold inventory. Further, collection period at consolidated level remained moderate but deteriorated from 32 days in FY19 to 41 days as most of customers paying their dues within 1-2 months. Due to aforementioned reason, the operating cycle at consolidated level remains high at 201 days in FY20 from 175 days in FY19. The average of maximum working capital utilization at consolidated level during last one year ending on January, 2020 remains between 90.00% -95.00%.

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 not much affected as company supplied masks, gloves, PPE sets and other protective gear items to all over India which compensated for sales affected due to COVID -19. The company has availed moratorium period from March – August 2020 for term loan and interest due on working capital facility. The interest on term loan and working facility is converted into FITL which is payable before March 31, 2021 and the company has also availed Guaranteed Emergency Credit Line (GECL) of Rs 5.00 crore and COVID -19 demand loan of Rs 2.50 crore during FY21 from SBI in order to meet its operational working capital requirement.

Intense competition

The Indian innerwear industry is intensely fragmented with the presence of numerous players in addition to the unorganized market, which accounts for around 70 per cent of the total market size. The competition is expected to further intensify, with the advent of established foreign brands through the franchisee route and the domestic players spending heavily on brand building and product positioning.

Highly competitive and Inherent cyclical industry

India has the world's second largest spinning capacity, commanding a major share of the global yarn market. However, the domestic cotton yarn production has remained subdued in the last two financial years. Also, there is stiff competition from Bangladesh, Vietnam and Pakistan in terms of cotton exports. Exports of Indian cotton yarn to the European Union (EU) and China fell 25 per cent in the past five years as the market share of Indian spinners has been taken over by Vietnam, as the nation enjoys duty-free access to the Chinese market. Hence, the domestic and export demand for yarn and textile remains crucial for the yarn manufacturers. Also, the industry is highly competitive and fragmented with the presence of large number of players which limits the pricing power of players.

Liquidity analysis – Adequate
The company at consolidated level has adequate liquidity position with satisfactory cash accruals generation. The current ratio and quick ratio of the company stood at 1.53x and 0.47x as on March 31, 2020. The interest coverage indicator of the company also stood moderate at 1.48 times during FY20 (UA). Considering the cash accrual which the company generated in FY20 (UA), expected generation of cash accruals during FY21 and the term debt obligations of Rs 1.87 crore along with interest obligations, the cash accruals are expected to be adequate. The company has availed moratorium period from March – August 2020 for term loan and interest due on working capital facility. The interest on term loan and working facility is converted into FITL which is payable before March 31, 2021 and the company has also availed Guaranteed Emergency Credit Line (GECL) of Rs 5.00 crore and COVID -19 demand loan of Rs 2.50 crore during FY21 from SBI in order to meet its operational working capital requirement.

Analytical approach: Consolidated
CARE, has taken a consolidated view of Seshasayee Knittings Private Limited (SKPL) and its subsidiaries Thatavarthi Apparels Private Limited (TAPL). SKPL holds 69.65% of stake in TAPL.

Applicable criteria
Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
Rating Methodology-Manufacturing Companies
Rating Methodology-Manufacturing Companies- Cotton Textiles
Financial ratios – Non-Financial Sector
Consolidation and Factoring Linkage in Rating
Liquidity Analysis – Non Financial Sector

About the Company
Incorporated in 1999, Thatavarthi Apparels Private Limited (TAPL) (Erstwhile Thatavarthi Apparels Limited) was promoted by Mr. T Chandra Sekhar Rao. TAPL belongs to Vilan group, which is into manufacturing of inner Garments and Knitwear for the past three decades. Vilan Group is into textile industry across the value chain and operates through four group companies. Vilan Group has five manufacturing units engaged in the production of hosiery garments located at Vijayawada, Andhra Pradesh and one sourcing unit located at Tirupur in Tamil Nadu.TAPL has its manufacturing facility located at Guntur, Andhra Pradesh and commenced operations with an installed capacity of 17,952 spindles and manufactures cotton yarn of counts ranging from 24's to 120's. Seshasayee Knittings Private Ltd (SKPL) is the flagship company of the VILAN Group and also is the holding company of TAL (69.65% subsidiary). SKPL has established distribution network of 50 distributors (pan India) and 4 stores (Vijayawada). SKPL has installed capacity of 50,000 pieces of garments/day with the utilization capacity of around 90-95%.

Brief Financials (Rs. crore)	FY19 (A)	F20 (UA)
Total operating income	143.19	130.51
PBILDT	14.49	15.31
PAT	1.77	1.50
Overall gearing (times)	0.96	0.63
Interest coverage (times)	1.56	1.48

A- Audited, UA-Un Audited

Status of non-cooperation with previous CRA: CRISIL B-; Stable (Suspended vide PR dated April 02, 2014)

Any other information: NA

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

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	-	-	November 2024	6.95	CARE BBB-; Stable
Fund-based - LT-Cash Credit	-	-	-	28.57	CARE BBB-; Stable
Fund-based - ST-Others	-	-	-	0.00	Withdrawn
Non-fund-based - ST-Bank Guarantees	-	-	-	0.00	Withdrawn
Non-fund-based - ST-Stand by Line of Credit	-	-	-	0.00	Withdrawn

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	6.95	CARE BBB-; Stable	-	1)CARE BB+; Stable (02-Mar-20)	1)CARE BB+; Stable (29-Jan-19)	1)CARE BB+; Stable (28-Dec-17)
2.	Fund-based - LT-Cash Credit	LT	28.57	CARE BBB-; Stable	-	1)CARE BB+; Stable (02-Mar-20)	1)CARE BB+; Stable (29-Jan-19)	1)CARE BB+; Stable (28-Dec-17)
3.	Fund-based - ST-Others	ST	-	-	-	1)CARE A4+ (02-Mar-20)	1)CARE A4+ (29-Jan-19)	1)CARE A4+ (28-Dec-17)
4.	Non-fund-based - ST-Bank Guarantees	ST	-	-	-	1)CARE A4+ (02-Mar-20)	1)CARE A4+ (29-Jan-19)	1)CARE A4+ (28-Dec-17)
5.	Non-fund-based - ST-Stand by Line of Credit	ST	-	-	-	1)CARE A4+ (02-Mar-20)	1)CARE A4+ (29-Jan-19)	1)CARE A4+ (28-Dec-17)

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

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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