

### Thatavarthi Apparels Limited

January 29, 2019

#### Ratings

Facilities	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Long Term Bank Facilities	31.85 (reduced from Rs.37.17)	CARE BB+; Stable (Double B Plus; Outlook: Stable)	Reaffirmed
Short Term Bank Facilities	9.65	CARE A4+ (A Four Plus)	Reaffirmed
Total facilities	41.50 (Rs. Forty-One crore and Fifty lakhs Only)		

*Details of instruments/facilities in Annexure-1*

#### Detailed Rationale & Key Rating Drivers

CARE, has taken a consolidated view of Thatavarthi Apparels Limited (TAL), Seshasayee Knittings Private Limited (SKPL), Vilan Apparels Private Limited and Lakshmi Teja Garments Private Limited - together referred as Vilan Group, as companies operate in the similar line of business, operate under common management and managed by common promoters, have operational linkages and fungible cash flows. Seshasayee Knittings Private Limited (SKPL) holds 69.71% stake in Thatavarthi Apparels Limited (TAL).

The rating assigned to the bank facilities of Thatavarthi Apparels Limited (TAL) continues to remain constrained by relatively small scale of operations, deterioration in operating margin, moderate capital structure and debt coverage indicators, working capital intensive nature of business and intense competition in the industry. The rating, however, draws strength from experienced and resourceful promoters along with group support, steady growth in the total operating income during FY18 (refers to the period April 1 to March 31), established relationship with customers and suppliers and geographically diversified revenue profile.

The ability of the company to increase its scale of operation with improvement in profitability margin amidst fluctuation in raw material prices and efficiently use of working capital requirement are the key rating sensitivities.

#### Detailed description of the key rating drivers

##### Key Rating Weaknesses

##### **Deterioration in operating margin**

Despite steady growth in the total operating income of the company (consolidated level) by 11.47% during FY18, the PBILDT margin deteriorated by 190 bps from 16.34% during FY17 to 14.44% during FY18 due to increase in the raw material prices. Further, the company (consolidated level) has reported PBILDT of Rs. 9.36 crore during 9MFY19(UA).

##### **Moderate capital structure and debt coverage indicators**

During FY18, the promoters of the group have infused unsecured loans amounting Rs. 12.19 crore. However, the overall gearing (consolidated level) remains moderate and stable at 1.75x as on March 31, 2018 (1.74x as on March 31, 2017) due to accretion of PAT into networth. The debt coverage indicators such as Total debt to GCA (consolidated level) has also remained stable at 13.88x as on March 31, 2018 (13.46x as on March 31, 2017) despite of scheduled repayment of term loans because the same was offset due to infusion of unsecured loans. Further, PBILDT interest coverage (consolidated level) has remained stable at 1.14x during FY18 (1.13x during FY17).

##### **Working capital intensive nature of operations**

As the group operates in a working capital intensive industry, the operating cycle of the company remains elongated. The company (consolidated level) has to maintain sufficient stocks at its outlets, which results in high inventory holding period with respect to the finished goods. Despite of increasing demand, inherent to industry, the average inventory period of the company has improved marginally from 231 days in FY17 to 220 days in FY18. Further, the average collection period of the company is moderate with most of its customers paying their dues within 1-2 months. Due to aforementioned reasons, the operating cycle of the company remains elongated but has improved from 245 days in FY17 to 229 days in FY18.

##### **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 intensify, with the advent of established foreign brands through the franchisee route and the domestic players spending heavily on brand building and product positioning. The spinning industry is highly regulated and Government regulations

<sup>1</sup>Complete definitions of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and in other CARE publications.

in textile sector starting from Minimum Support Price (MSP) of cotton given to farmers, quantitative export restrictions imposed cotton ginning, pressing spinning units for export of cotton bales, etc. Furthermore as the barriers to entry are low in spinning industry, the industry has many players resulting in intense competition among the companies in the industry.

#### **Key Rating Strengths**

##### ***Experienced and resourceful promoter along with group support***

TAL 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 day to day operations of group. The group derives strength from its management team who has vast experience in textile industry. Till March 31, 2018 promoter directors of group have infused Rs.32.27 crore in the form of unsecured loan to support its growing operations.

##### ***Steady growth in total operating income during FY18***

The total operating income of the company (consolidated level) increased by 11.47% from Rs. 96.59 crore during FY17 to Rs. 107.67 during FY18 majorly due to increase in export sales from Rs.12.75 crore during FY17 to Rs.28.32 crore during FY18. Further, the company (consolidated level) has reported total operating income of Rs. 109.76 crore during 9MFY19(UA).

##### ***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.

##### ***Geographically diversified revenue profile***

The company (consolidated level) has a geographically diversified revenue profile as it undertakes domestic as well as export sales. Domestic sales constituted 73.38% of total sales for FY18 (88.11% for FY17) wherein 28.93% of revenue was derived from Andhra Pradesh during FY18 (as against 31.09% in FY17). The contribution of export sales has significantly increased to 26.30% in FY18 (13.20% in FY17). The group is exporting its product to various countries such as Singapore, Vietnam, Taiwan, China and Thailand.

##### ***Liquidity position***

The liquidity position of the group is satisfactory with current ratio of 1.60 as on March 31, 2018. The cash and bank balances stood at Rs. 0.29 crore as on March 31, 2018.

**Analytical approach:** Consolidated. CARE, has taken a consolidated view of Seshasayee Knittings Private Limited (SKPL), Thatavarthi Apparels Limited (TAL), Vilan Apparels Private Limited and Lakshmi Teja Garments Private Limited - together referred as Vilan Group, as companies operate in the similar line of business, operate under common management and managed by common promoters, have operational linkages and fungible cash flows. Seshasayee Knittings Private Limited (SKPL) holds 69.71% stake in Thatavarthi Apparels Limited (TAL).

#### **Applicable Criteria:**

[Criteria on assigning Outlook to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Criteria for Short Term Instruments](#)

[Rating Methodology- Manufacturing Companies](#)

[Financial ratios – Non-Financial Sector](#)

[Rating Methodology –Factoring Linkages in Ratings](#)

#### **About the Company**

Incorporated in 1999, Thatavarthi Apparels Limited (TAL) was promoted by Mr. T Chandra Sekhar Rao. TAL 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 six associate concerns 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, Tamilnadu and has a capacity to produce 19,500 pieces of garments per day. The Group operates through 32 distributors in Andhra Pradesh, Orissa and Kerala. TAL 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 and holding company of the Vilan Group. SKPL holds 69.71% stake in TAL. SKPL has established distribution network of 50 distributors (pan India) and 5 stores (Vijayawada). SKPL has installed capacity of 50,000 pieces of garments/day with the utilization capacity of around 90-95%.

Consolidated Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	96.59	107.67
PBILDT	16.34	14.44
PAT	0.90	1.23
Overall gearing (times)	1.74	1.75
Interest coverage (times)	1.44	1.46

**Status of non-cooperation with previous CRA:** Not Applicable

**Any other information:** Not Applicable

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

**Note on complexity levels of the rated instrument:** CARE has classified instruments rated by it on the basis of complexity. This classification is available at [www.careratings.com](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

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**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	-	-	September 2020	11.85	CARE BB+; Stable
Fund-based - LT-Cash Credit	-	-	-	20.00	CARE BB+; Stable
Fund-based - ST-Others	-	-	-	5.00	CARE A4+
Non-fund-based - ST-Bank Guarantees	-	-	-	0.90	CARE A4+
Non-fund-based - ST-Stand by Line of Credit	-	-	-	3.75	CARE A4+

## 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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT-Term Loan	LT	11.85	CARE BB+; Stable	-	1)CARE BB+; Stable (28-Dec-17)	1)CARE BB; Stable (30-Dec-16)	1)CARE BB (22-Dec-15)
2.	Fund-based - LT-Cash Credit	LT	20.00	CARE BB+; Stable	-	1)CARE BB+; Stable (28-Dec-17)	1)CARE BB; Stable (30-Dec-16)	1)CARE BB (22-Dec-15)
3.	Fund-based - ST-Others	ST	5.00	CARE A4+	-	1)CARE A4+ (28-Dec-17)	1)CARE A4 (30-Dec-16)	1)CARE A4 (22-Dec-15)
4.	Non-fund-based - ST-Bank Guarantees	ST	0.90	CARE A4+	-	1)CARE A4+ (28-Dec-17)	1)CARE BB; Stable / CARE A4 (30-Dec-16)	1)CARE BB / CARE A4 (22-Dec-15)
5.	Non-fund-based - ST-Stand by Line of Credit	ST	3.75	CARE A4+	-	1)CARE A4+ (28-Dec-17)	1)CARE A4 (30-Dec-16)	-

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