

Thatavarthi Apparels Limited

December 28, 2017

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long-term Bank Facilities	37.17 (reduced from Rs.42)	CARE BB+; Stable (Double B plus; Outlook: Stable)	Revised from CARE BB (Double B; Outlook: Stable)
Short-term Bank Facilities	9.65	CARE A4+ (A four plus)	Revised from CARE A4 (A four)
Total Facilities	46.82 (Rupees Forty Six crore and Eighty Two Lakh 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 revision in the ratings assigned to the bank facilities of Thatavarthi Apparels limited (TAL) takes into account, at the consolidated level, the improved financial performance during FY17 (refers to the period April 1 to March 31) marked by increase in the total operating income, improved overall gearing and debt coverage indicators and improvement in operating cycle. The ratings are, however, offset by relatively small scale of operation, deterioration in operating margins, working capital intensive nature of business and intense competition in the industry. The ratings continue to draw strength from experience and resourceful promoters along with group support, established relationship with customer and supplier 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 efficient use of working capital requirement are the key rating sensitivities.

Detailed description of the key rating drivers

Key rating Weaknesses

Deterioration in operating margins

The PBILDT margin of group has deteriorated from 13.43% in FY16 to 12.14% in FY17 due to volatility in raw material price. Further the group has reported PBILDT of Rs.7.19 crore during H1FY18 (UA).

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 has to maintain sufficient stocks at its outlets, which results in high inventory holding period with respect to the finished goods.

Intense competition

¹Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications

The Indian innerwear industry is intensely fragmented with the presence of numerous players in addition to the unorganised 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. The spinning industry is highly regulated and Government regulations 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 FY17, promoter directors of group have infused Rs.20.08 crore in the form of unsecured loan to support its growing operations.

Steady growth in total operating income

The total operating income of group has shown y-o-y growth of 15.22% from Rs.90.87 crore in FY16 to Rs.104.70 crore in FY17. The steady growth in total operating income is backed by increased demand, established brand name 'Vilan' and the benefits derived from established relationship. Further, the group has reported total operating income Rs.47.73 crore during H1FY18 (UA).

Improvement in overall gearing and debt coverage indicators

The overall gearing of group after considering unsecured loan as quasi equity has improved from 1.96x as on March 31, 2016 to 1.74x as on March 31, 2017 due to accretion of PAT into Networth. The debt coverage indicators such as Total debt to GCA has improved to 13.96x in FY17 (15.46x in FY16) and PBILDT Interest coverage improved 1.61x in FY17 (1.58x in FY16).

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 group has a geographically diversified revenue profile as the group undertakes domestic as well as export sales. Domestic sales constituted 88.11% of total sales for FY17 (87.93% for FY16) wherein 35.63% of revenue was derived from Andhra Pradesh during FY17 (as against 72.61% in FY16). The contribution of export sales has marginally reduced to 11.89% in FY17 (12.07% in FY16) due to China's restricted import policy. The group is exporting its product to various countries such as Singapore, Vietnam, Taiwan, China and Thailand.

Analytical approach: consolidated

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).

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)	FY16 (A)	FY17 (A)
Total operating income	90.87	104.70
PBILDT	12.20	12.71
PAT	0.62	0.81
Overall gearing (times)	1.96	1.74
Interest coverage (times)	1.58	1.61

A: Audited

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. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

Analyst Contact:

Name: Mr D Naveen Kumar

Tel: 040-40102030

Mobile: +91 8886097382

Email: dnaveen.kumar@careratings.com

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About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market

built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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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	17.17	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 Guarantee	-	-	-	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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Fund-based-LT-Term loan	LT	17.17	CARE BB+; Stable	-	1)CARE BB; Stable (30-Dec-16)	1)CARE BB (22-Dec-15)	1)CARE BB- (11-Mar-15)
2.	Fund-based-LT-Cash Credit	LT	20.00	CARE BB+; Stable	-	1)CARE BB; Stable (30-Dec-16)	1)CARE BB (22-Dec-15)	1)CARE BB- (11-Mar-15)
3.	Fund-based-ST-Others	ST	5.00	CARE A4+	-	1)CARE A4; Stable (30-Dec-16)	1)CARE A4 (22-Dec-15)	1)CARE A4 (11-Mar-15)
4.	Non-Fund-based- ST-Bank Guarantee	ST	0.90	CARE A4+	-	1)CARE A4 (30-Dec-16)	1)CARE A4 (22-Dec-15)	1)CARE A4 (11-Mar-15)
5.	Non-Fund-based-ST-Stand by Line of Credit	ST	3.75	CARE A4+	-	1)CARE A4 (30-Dec-16)	-	-

CONTACT**Head Office Mumbai**

Ms. Meenal Sikchi
Cell: + 91 98190 09839
E-mail: meenal.sikchi@careratings.com

Mr. Ankur Sachdeva
Cell: + 91 98196 98985
E-mail: ankur.sachdeva@careratings.com

Ms. Rashmi Narvankar
Cell: + 91 99675 70636
E-mail: rashmi.narvankar@careratings.com

Mr. Saikat Roy
Cell: + 91 98209 98779
E-mail: saikat.roy@careratings.com

CARE Ratings Limited

(Formerly known as Credit Analysis & Research Ltd.)

Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022
Tel: +91-22-6754 3456 | Fax: +91-22-6754 3457 | E-mail: care@careratings.com

AHMEDABAD

Mr. Deepak Prajapati
32, Titanium, Prahaladnagar Corporate Road,
Satellite, Ahmedabad - 380 015
Cell: +91-9099028864
Tel: +91-79-4026 5656
E-mail: deepak.prajapati@careratings.com

JAIPUR

Mr. Nikhil Soni
304, Pashupati Akshat Heights, Plot No. D-91,
Madho Singh Road, Near Collectorate Circle,
Bani Park, Jaipur - 302 016.
Cell: +91 – 95490 33222
Tel: +91-141-402 0213 / 14
E-mail: nikhil.soni@careratings.com

BENGALURU

Mr. V Pradeep Kumar
Unit No. 1101-1102, 11th Floor, Prestige Meridian II,
No. 30, M.G. Road, Bangalore - 560 001.
Cell: +91 98407 54521
Tel: +91-80-4115 0445, 4165 4529
Email: pradeep.kumar@careratings.com

KOLKATA

Ms. Priti Agarwal
3rd Floor, Prasad Chambers, (Shagun Mall Bldg.)
10A, Shakespeare Sarani, Kolkata - 700 071.
Cell: +91-98319 67110
Tel: +91-33- 4018 1600
E-mail: priti.agarwal@careratings.com

CHANDIGARH

Mr. Anand Jha
SCF No. 54-55,
First Floor, Phase 11,
Sector 65, Mohali - 160062
Chandigarh
Cell: +91 851111-53511/99251-42264
Tel: +91- 0172-490-4000/01
Email: anand.jha@careratings.com

NEW DELHI

Ms. Swati Agrawal
13th Floor, E-1 Block, Videocon Tower,
Jhandewalan Extension, New Delhi - 110 055.
Cell: +91-98117 45677
Tel: +91-11-4533 3200
E-mail: swati.agrawal@careratings.com

CHENNAI

Mr. V Pradeep Kumar
Unit No. O-509/C, Spencer Plaza, 5th Floor,
No. 769, Anna Salai, Chennai - 600 002.
Cell: +91 98407 54521
Tel: +91-44-2849 7812 / 0811
Email: pradeep.kumar@careratings.com

PUNE

Mr. Pratim Banerjee
9th Floor, Pride Kumar Senate,
Plot No. 970, Bhamburda, Senapati Bapat Road,
Shivaji Nagar, Pune - 411 015.
Cell: +91-98361 07331
Tel: +91-20- 4000 9000
E-mail: pratim.banerjee@careratings.com

COIMBATORE

Mr. V Pradeep Kumar
T-3, 3rd Floor, Manchester Square
Puliakulam Road, Coimbatore - 641 037.
Tel: +91-422-4332399 / 4502399
Email: pradeep.kumar@careratings.com

CIN - L67190MH1993PLC071691

HYDERABAD

Mr. Ramesh Bob
401, Ashoka Scintilla, 3-6-502, Himayat Nagar,
Hyderabad - 500 029.
Cell : + 91 90520 00521
Tel: +91-40-4010 2030
E-mail: ramesh.bob@careratings.com