Thatavarthi Apparels Private Limited

March 02, 2020

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	25.87 (reduced from Rs.31.85 crore)	CARE BB+; Stable (Double B Plus; Outlook: Stable)	Reaffirmed
Short Term Bank Facilities	9.65	CARE A4+ (A Four Plus)	Reaffirmed
Total 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 Thatavarthi Apparels Private Limited (TAPL) (Erstwhile Thatavarthi Apparels Limited) and Seshasayee Knittings Private Limited (SKPL) 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 rating assigned to bank facilities of Seshasayee Knittings Private Limited (SKPL) continues to remain constrained by relatively small scale of operations, deterioration in profitability margin, moderate capital structure and debt coverage indicators, working capital intensive nature of the business, intense competition in the industry, highly competitive and inherent cyclical industry. The rating, however, derives strength from experienced and resourceful promoters along with group support, healthy and continuous growth in scale of operations during FY19 (refers to period April 01 to March 31), established relationship with customers and suppliers, established market presence with brand recall and geographically diversified revenue profile.

Rating Sensitivities

Positive –

- To improve scale of operations above Rs 250 crore and maintain PBILDT margin above 13% and PAT margin above 4% on sustained basis.

Negative –

- Overall gearing deteriorating above 1.50x in any of the projected years
- Increase in inventory period above 200 days
- Any withdrawal of unsecured loan which are not subordinated to the bank facilities leading to strain on working capital requirements

Detail description of key rating drivers

Key rating weaknesses

Deterioration in profitability margin

Despite increase in total operating income, the PBILDT margin of TAPL (Consolidated) deteriorated by 432 bps from 14.44% during FY18 to 10.12 % during FY19 on account of increase in cost of raw material whose contribution as increased from 57.28 % of TOI in FY18 to 62.97 % of TOI in FY19. The price of cotton has increased during 2018-19 due to monsoon deficit faced by southern states of India. In line with decline in the PBILDT margin, the PAT margin of the company also deteriorated marginally from 1.59 % in FY18 to 1.24 % in FY19. The PAT level at an absolute level has remained stable at Rs 1.77 crore in FY19 (Rs 1.71 crore in FY18).

Moderate capital structure and 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.34.51 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.Due to aforementioned reason along with accretion of PAT into net worth, the overall gearing (consolidated) has improved from 1.75x as on March 31, 2018 to 0.96 x as on March 31, 2019. The debt coverage indicators such as total debt to GCA at consolidated level has also improved from 13.88x as on March 31, 2018 to 10.18x as on March 31, 2019 on account of decrease in total debt due to schedule repayment of term loan and considering certain portion of unsecured loans as part of quasi capital. Further, PBILDT Interest coverage at consolidated level has remained stable at 1.56x during FY19. (1.46x during FY18).

Working capital intensive nature of operations

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. Despite of increasing demand, inherent to

[1]*Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.*

industry, the average inventory at consolidated level has improved from 220 days in FY18 to 169 days in FY19 due to better inventory management. Further, collection period at consolidated level is moderate and improved from 44 days in FY18 to 32 days as most of customers paying their dues within 1-2 months. Due to aforementioned reason, the operating cycle at consolidated level remains high but has improved from 229 days in FY18 to 175 days in FY19. The average of maximum working capital utilization at consolidated level during last one year ending on October, 2019 remains at 100%

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.

<u>Key Rating Strengths</u>

Experienced and resourceful promoter along with group support

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 day to day operations of group. The group derives strength from its management team who has vast experience in textile industry. Till March 31, FY19, promoter directors of the company at consolidated level have infused Rs.34.51 crore in the form of unsecured loan to support its growing operations.

Healthy and continuous growth in scale of operation during FY19

The scale of operations of TAPL (Consolidated) as indicated by total operating income (TOI) has exhibited healthy and continuous growth trend in last three financial year ended on FY19. TOI of TAPL has improved by 32.98 % to Rs 143.19 crore in FY19 from Rs 107.67 crore in FY18. The increase was led by continuous increase in export from Rs 28.32 crore in FY18 to Rs 49.72 crore in FY19 owing to increase in sale to countries like Singapore, Taiwan , Vietnam, China and Thailand.

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

TAPL 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

TAPL has a geographically diversified revenue profile as the company undertakes domestic as well as export sales. Domestic sales constituted 64.73% of total sales for FY19 (73.38% for FY18) wherein 29.81% of revenue was derived from Andhra Pradesh during FY19 (as against 28.93% in FY18). The contribution of export sales has significantly increased to 34.72% in FY19 (26.30% in FY18). The company is exporting its product to various countries such as Singapore, Vietnam, Taiwan, China and Thailand. Further, the company has an established distribution network of 50 distributors (pan India) and operates through 5 stores located in Vijayawada.

Liquidity analysis – Adequate

The company has a satisfactory liquidity position with adequate cash accruals generation. The current ratio and quick ratio of the company stood at 1.53x and 0.40x as on March 31, 2019. The interest coverage indicator of the company also stood moderate at 1.56 times during FY19. Considering the cash accrual which the company generated in FY19, expected generation of cash accruals during FY20 and the term debt obligations of Rs 5.51 crore along with interest obligations, the cash accruals are expected to be adequate. The company has also made advance repayment of schedule term debt obligation and till January 31, 2020 it has made payment of Rs 4.71 crore. The promoters of the company has infused Rs 3.00 crore during 9MFY20 to meet the working capital requirement.

Analytical approach: Consolidated

CARE, has taken a consolidated view of Seshasayee Knittings Private Limited (SKPL) and its subsidiaries Thatavarthi Apparels Limited (TAL). SKPL holds 69.71% of shares in TAL.

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

About the Company
Incorporated in 1999, Thatavarthi Apparels Private Limited (TAPL) 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 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 TAPL. 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%.

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

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	107.67	143.19
PBILDT	15.54	14.49
PAT	1.71	1.77
Overall gearing (times)	1.75	0.96
PBILDT Interest coverage (times)	14.44	10.12
PBIT Interest Coverage (times)	1.14	1.21

A: Audited

Status of non-cooperation with previous CRA: CRISIL BB-; Stable (Issuer not cooperating) as per PR dated December 26, 2018.

Any other information: Not Applicable

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

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	5.87	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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - LT-Term Loan	LT	5.87	CARE BB+; Stable	-	1)CARE BB+; Stable (29-Jan-19)	1)CARE BB+; Stable (28-Dec-17)	1)CARE BB; Stable (30-Dec-16)
2.	Fund-based - LT-Cash Credit	LT	20.00	CARE BB+; Stable	-	1)CARE BB+; Stable (29-Jan-19)	1)CARE BB+; Stable (28-Dec-17)	1)CARE BB; Stable (30-Dec-16)
3.	Fund-based - ST-Others	ST	5.00	CARE A4+	-	1)CARE A4+ (29-Jan-19)	1)CARE A4+ (28-Dec-17)	1)CARE A4 (30-Dec-16)
4.	Non-fund-based - ST-Bank Guarantees	ST	0.90	CARE A4+	-	1)CARE A4+ (29-Jan-19)	1)CARE A4+ (28-Dec-17)	1)CARE BB; Stable / CARE A4 (30-Dec-16)
5.	Non-fund-based - ST-Stand by Line of Credit	ST	3.75	CARE A4+	-	1)CARE A4+ (29-Jan-19)	1)CARE A4+ (28-Dec-17)	1)CARE A4 (30-Dec-16)

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

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.*

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About CARE Ratings:
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