Vasantha Industries Limited
March 23, 2020

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long-term Bank Facilities	173.12	**CARE BBB-; Stable (Triple B Minus; Outlook - Stable)**	Reaffirmed
Short –term Bank Facilities	23.07	**CARE A3 (A Three)**	Reaffirmed
Total	**196.19 (Rupees One Hundred and Ninety Six Crore and Nineteen Lakh Only)**		

Details of facilities in Annexure-I

Detailed Rationale & Key Rating Drivers
The ratings assigned to bank facilities of Vasantha Industries Limited continue to derives 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 and stable industry outlook. The ratings also takes into account the growth in during Total operating income during FY19 (refers to period from April 1 to March 31). The ratings, however, are tempered by significant decline in profitability margin during FY19 albeit rebound during 9MFY20, moderately leveraged capital structure with weakened debt coverage indicators, working capital intensive nature of operations, exposure to foreign currency fluctuations, ongoing debt funded capex and highly regulated nature of textile industry.

Key Rating Sensitivities
Positive Factor
- To maintain the scale of operations while garnering PBILDT margin above 13.00 % on sustained basis.
- Receipt of pending power subsidy and subsidy under TUFS, leading to improvement in liquidity.

Negative Factors
- Overall gearing deteriorating above 2.00x in any of the projected years.
- Increase in inventory period above 200 days.
- Delay in commencement of ongoing debt funded capex by further 6 months than envisaged.

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.The other promoters Mr.Parupalli Nageswara Rao, Ms. Vasantha Bhavana Srilakshmi and Mr. Yalavarthi Ramesh are well-experienced and have prior experience in cotton trading and spinning industry. Promoters have been supporting the company by way of infusing funds as and when required to support the operations. During FY19 the promoters have infused funds of Rs 5.04 crore in the form of equity and Rs 5.76 crore as unsecured loan during 9MFY20 to meet the operational requirement and the term debt obligations on time.
Established track record of the company coupled with client concentration risk
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 Ramakoteswara Rao Textiles Pvt Limited, Xiamen ITG Group Corp Ltd and many others. The revenue concentration from the top 5 clients has increased during FY19 to 50.28% of sales from 44.07% of sales in FY18. China Ctexic Corporation was the largest customer with contribution of 32.30 % of sales in FY19 (26.00 % of sales in FY18).
Established long term relationship with suppliers coupled with reduction in supplier concentration risk.
The Company's procures cotton bales from local markets, farmers and group companies. Over the years, the company has established a long term relationship with its key suppliers. In FY19, the supplier concentration risk reduced as the top five suppliers contributed 31.00% of purchase compare to 66.09 % of purchase in FY18 on account of purchase of raw materials from Maharashtra instead of Andhra Pradesh as the price of cotton in Andhra Pradesh were on higher side compare to Maharashtra due to deficit of monsoon during FY19.

[2]*Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*

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, 2019 was Rs.20.35 Crore and Rs 27.84 crore respectively as against Rs. 14.98 crore and Rs 26.73 crore respectively as on March 31, 2018. The Company has received subsidy pending from the state government to the tune of Rs 3.19 crore and expecting to receive Rs 50 crore (Rs 45 crore pertaining to FY19 and Rs 5.00 crore for 9MFY20) from government on March 20, 2020.

Increase in scale of operations in FY19

TOI of the company has improved by 3.46 % in FY19 to Rs 379.87 crore from Rs 367.15 crore in FY18 on account of increase in export sales from 169.34 crore in FY18 to Rs 196.18 crore in FY19.

<u>Key Rating Weaknesses</u>

Decline in profitability margin during FY19 albeit with rebound during 9MFY20

Despite increase in total operating income, the PBILDT margin of the company deteriorated by 552 bps from 13.56% during FY18 to 8.04 % during FY19 on account of increase in cost of raw material consumed from Rs 221.99 crore (60.46 % of TOI) in FY18 to Rs 244.93 crore (64.47 % of TOI) in FY19. The price of cotton has increased during 2018-19 due to monsoon deficit faced by southern states of India. In FY19 the cost of power and fuel also increased from Rs 28.55 crore in FY18 (7.77 % of TOI) to Rs 39.92 crore in FY19 (10.51 % of TOI) due to decrease in electricity subsidy from Rs 3.04 per unit in FY18 to Rs 1.00 per unit in FY19. In line with the PBILDT, the PAT margin of the company also deteriorated from 5.20 % in FY18 to 0.62 % in FY19. The PBILDT and PAT margin of the company during 9MFY20 improved to 12.51 % and 2.97% on account of decrease in cost of raw materials.

Moderately leveraged capital structure with weakened debt coverage indicators

The capital structure of the company marked by overall gearing improved from 1.85x as on March 31, 2018 to 1.63x as on March 31, 2019 on account of decrease in total debt from Rs 230.75 crore as on March 31, 2018 to Rs 222.82 crore as on March 31, 2019. The decrease in total debt is on account of decrease in term loan from Rs 100.17 crore in FY18 to Rs 79.21 crore in FY19. The company has also borrowed working capital facility to manage its working capital requirement which stood at 109.32 crore as on March 31, 2019.The total debt to GCA of company also deteriorated from 7.20 x in FY18 to 14.59x in FY19 on account of decrease in GCA level due to increase in cost of sales from Rs 317.37 crore in FY18 (86.44 % of TOI) to Rs 349.32 crore in FY19 (91.96 % of TOI). The interest coverage ratio of the company deteriorated in FY19 to 1.94x from 3.02x in FY18 on account of decrease in PBILDT level.

Working capital intensive nature of operations

The operating cycle of the company remained stable at 94 days in FY19 (94 days in FY18).The inventory holding period of the company improved from 137 days in FY18 to 128 days in FY19 but remained high 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 improved from 16 days in FY18 to 21 days in FY19. The average creditor period of the company between 55 – 60 days as 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 January 2020 was high at 95.60%.

Exposure to foreign currency fluctuations

The company exports majorly to countries such as China, Egypt, Iran, Bangladesh and European countries, etc. Exports contributed around 52.07% of gross sales in FY19 vis-a-vis 46.20% in FY18.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.

Ongoing debt funded capex

The company is setting up 8MW solar power plant 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 is expected to be Rs 29.01 crores which is to be funded by term loan of Rs 21.76 crore and equity from promoter of Rs 7.25 crore. The proposed solar power plant is expecting to generate 12 million units and the remaining requirement will be provided by the electricity board. The company is expecting to save Rs 1.54 crore crore approximately during first year after installation of proposed 8MW solar power plant.

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.

Industry outlook – Stable

The domestic cotton yarn production has remained subdued in FY17 and FY18 owing to low domestic downstream demand and reduced orders from the export market.FY19, however, saw some recovery, with the domestic cotton yarn production increasing by ~3%, on the back of increased demand from China. Total exports of cotton yarn increased by 15% during the year, led by 47% increase in exports to China. Though some part of the growth in exports can be attributed to the low base effect, better demand and favorable currency movement led to the increased quantum. Domestic demand for cotton yarn, however, declined by ~1.4% in FY19 on account of low downstream demand. Better export demand led to higher cotton yarn prices in the domestic market, compared to the previous year, which was also helped by the high fibre cost.

Prospects

The prospects of the company will be governed by its ability to pass on the fluctuation in raw material prices and efficiently manage its working capital requirements.

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 0.54x as on March 31, 2019. The interest coverage indicator of the company also stood moderate at 1.94 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 19.52 crore along with interest obligations, the cash accruals are expected to be adequate. The company has already made repayment of schedule term debt obligation of Rs 16.00 crore for FY20 and also the promoters have infused Rs 5.76 crore in form of unsecured loan to meet the debt obligations on time.

Analytical approach: Standalone

Applicable criteria -

Criteria on assigning 'outlook' and 'credit watch'
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
Rating Methodology for Cotton Yarn Industry
Financial ratios – Non-Financial Sector

About the company

The company is engaged in 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 company increased its spindling capacity to 1,05,000 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)	FY18 (A)	FY19 (A)
Total operating income	367.15	379.87
PBILDT	49.78	30.54
PAT	19.09	2.37
Overall gearing (times)	1.85	1.69
PBILDT Interest coverage (times)	3.02	1.94
PBIT Interest Coverage (times)	2.44	1.33

A: Audited

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: Not Applicable

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-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	-	-	December 2024	83.12	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 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	83.12	CARE BBB-; Stable	1)CARE BBB-; Stable (04-Apr-19)	1)CARE BBB-; Stable (05-Apr-18)	-	1)CARE BBB-; Stable (17-Mar-17)
2.	Fund-based - LT-Cash Credit	LT	90.00	CARE BBB-; Stable	1)CARE BBB-; Stable (04-Apr-19)	1)CARE BBB-; Stable (05-Apr-18)	-	1)CARE BBB-; Stable (17-Mar-17)
3.	Non-fund-based - ST-Forward Contract	ST	1.37	CARE A3	1)CARE A3 (04-Apr-19)	1)CARE A3 (05-Apr-18)	-	1)CARE A3 (17-Mar-17)
4.	Fund-based - ST-Standby Line of Credit	ST	8.30	CARE A3	1)CARE A3 (04-Apr-19)	1)CARE A3 (05-Apr-18)	-	1)CARE A3 (17-Mar-17)
5.	Non-fund-based - ST-Bank Guarantees	ST	3.40	CARE A3	1)CARE A3 (04-Apr-19)	1)CARE A3 (05-Apr-18)	-	1)CARE A3 (17-Mar-17)
6.	Non-fund-based - ST-Letter of credit	ST	10.00	CARE A3	1)CARE A3 (04-Apr-19)	1)CARE A3 (05-Apr-18)	-	1)CARE A3 (17-Mar-17)

Annexure-4: 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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