

Vasantha Industries Limited

April 04, 2019

Ratings

| Facilities | Amount (Rs. crore) | Rating ¹ | Rating Action |
|----------------------------|--|--|---------------|
| Long-term Bank Facilities | 173.12(reduced from 193.28) | CARE BBB-; Stable (Triple B Minus; Outlook: Stable) | Reaffirmed |
| Short-term Bank Facilities | 23.07(Enhanced from 14.07) | CAR A3 (A Three) | Reaffirmed |
| Total Facilities | 196.19 (Rupees One Hundred and Ninety Six Crore and Nineteen Lakh Only) | | |

Details of instruments/facilities in Annexure-1

Detailed description of the key rating drivers

The reaffirmation in ratings assigned to the bank facilities of Vasantha Industries Limited (VIL) reflects extensive experience of the promoters, established relationship with key customers and suppliers, eligibility of power subsidy from state government of Andhra Pradesh and interest subsidy under Technology Upgradation Fund (TUFS) scheme albeit pending receipt and stable industry outlook. The ratings also take into account; increase in income and profitability margins during FY18, (refers to the period April 1 to March 31), improvement in capital structure as on March 31, 2018. The ratings also factors working capital intensive nature of operations with weak liquidity position, moderate capital structure, foreign currency fluctuation risk and highly regulated nature of the textile industry. The ability of the company to deleverage its capital structure further and efficiently manage its working capital requirements while maintaining current profitability levels are the key rating sensitivities.

Key Rating Strengths

Experienced promoters with long track record of operations: VIL is promoted by Mr.V. Venkata Krishna Prasad, 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 having business interest in the similar field for the last few years. Promoters have been supporting the company by way of infusing funds as and when required to support the operations. During FY18 they have infused Rs 6.13 crore and Rs 20.18 crore during 9MFY18, thereby the total unsecured loans brought in by the promoters outstanding as on December 31, 2018 is Rs 42.43 crore

Established long term relationship with key customers and suppliers: VIL has established a long term relationship with its key suppliers and customers. It has a diversified customer base in India as well as abroad. China Textile Industrial Corporation was the largest customer with contribution of 22.59% to the gross sales in FY18, while VIL procured majority of the raw material from Vasantha Traders (47.02% of total cost of goods sold) leading to higher supplier concentration. Raw materials required for manufacturing kraft paper (bagasse, ground wood, straw, waste paper) is procured from ITC Limited and Sri Laxmi Tulasi Agro Paper Private Limited, both these manufacturers are located in Andhra Pradesh, thereby greatly reducing time and cost of transportation.

Subsidies under TUF and incentives from Andhra Pradesh state government under Industries Investment Promotion Policy (IIPP) albeit pending receipt: The company is eligible for both power and interest subsidy under Technology Upgradation Fund (TUF) scheme and Industries Investment Promotion Policy (IIPP). However, the same is received with delay.

Improved scale of operations along with increase in profitability margins during FY18: During FY18, the total operating income has increased by 29.35% to Rs. 367.15 crore from Rs. 283.84 crore in FY17 on account of increase in quantity sold of cotton yarn, cotton waste and kraft paper and increase in realization of cotton yarn and cotton waste. Further, during 9MFY19, the company registered Total Operating Income (TOI) of Rs.278.90 crore vis-à-vis Rs.284.90 crore in 9MFY18 (marginal decline of 2.14%). PBILDT margin increased significantly by 257 bps to Rs.13.56% in FY18 from 10.99% in FY17, on account of economies of scale and increase in sales of higher margin traded goods. Further, during 9MFY19, the PBILDT margin of the company declined to 13.39% vis-à-vis 14.66% in 9MFY18 on account of higher power and fuel expenses.

PAT margin increased by 395 bps to 5.20% in FY18 vis-à-vis 1.25% in FY17 on account of increase in PBILDT level coupled with decline in financing charges on account of forex gain. PAT margin for 9MFY19 is 3.65% vis-à-vis 3.36% in 9MFY18 on account of higher PBILDT level.

Stable Industry Outlook: During 5MFY19, exports of cotton yarn have increased by 52% compared to the corresponding period of previous year. Though some part of the growth in exports is also attributable to the low base effect; higher demand and depreciation of rupee has majorly aided in the increased export quantum. With the oil prices expected to

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

remain firm in the near future, leading to high price of the substitute- man-made yarn, the demand for cotton yarn is expected to remain stable.

Key Rating Weaknesses

Moderate capital structure; albeit improvement as on March 31, 2018: The overall gearing of the company improved from 2.10x as on March 31, 2017 to 1.85x as on March 31, 2018 due to profit accretion to reserves. The overall gearing as on December 31, 2018 was 0.88x. The PBILDT/Interest coverage ratio improved to 3.02x in FY18 vis-à-vis 1.70x in FY17 on account of higher PBILDT levels and lower finance charges during FY18. PBILDT interest coverage for 9MFY18 improved to at 2.41x vis-à-vis 2.21x in 9MFY18 on account of increased lower finance charges.

Working capital intensive nature of operations albeit improvement in operating cycle: The Company operates in working capital intensive nature of industry characterized with high inventory requirement resulting in high reliance on bank borrowings. The operating cycle deteriorated to 94 days in FY18 as against 84 days in FY17. Cotton; key raw material being seasonal in nature is available during the months of October to April, on account of which VIL has to maintain high levels of inventory for better capacity utilization. The average working capital utilization for last 11 months ending February 2018 was high at 91.57%.

Weak Liquidity position: Liquidity position of the company is weak on account of low cash balance of Rs.0.38 crore as on March 31, 2018 and high debt repayment obligations of Rs. 41.84 crore (principal plus interest). However comfort is derived from healthy GCA and infusion of funds by promoters to the tune of Rs 20.18 crore during 9MFY19 by way of equity and unsecured loans.

Exposure to foreign currency fluctuations: VIL exports majorly to countries such as China, Egypt, Iran, Bangladesh and European countries and exports contribute to around 46.20% of the gross sales, thus exposing the company to foreign currency fluctuation risks. The company has a policy of hedging 100% of foreign exchange contract as and when it is entered.

Inherent cyclicity 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.

Applicable Criteria

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

[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

VIL is engaged in production of cotton yarn and corrugated boards with its spinning facilities located in Guntur District. VIL 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, 2018. VIL produces cotton yarn in counts ranging from 30s to 60s for both knitting as well as weaving segments with combed and carded variety. Mr. Vasantha Venkata Krishna Prasad (Managing Director), and others directors, Ms. Vasantha Bhavana Srilakshmi, Mr. Parupalli Nageswara Rao and Mr. Yalavarthi, have prior experience in the cotton trading and cotton spinning industry, the board of directors is assisted by well experienced and qualified management team. During FY16-17, VIL has increased its spinning capacity by another 36,960 spindles along with a yarn processing line and corrugated boxes line. It has increased its spinning capacity from 66,816 spindles to 1,03,776 spindles in FY17. The initial estimated cost of the project was Rs.159.00 crore however the actual cost of the project was Rs.148.00 crore, as the company did not acquire some of the machinery which were planned to be acquired initially. The project funded by way of debt and promoters contribution by way of equity and unsecured loan. VIL as on December 31, 2018 has spinning capacity of 1,05,000 spindles and corrugation capacity (Kraft paper manufacturing) of 200 tons per day.

| Brief Financials (Rs. crore) | FY17 (A) | FY18 (A) |
|------------------------------|----------|----------|
| Total operating income | 283.84 | 367.15 |
| PBILDT | 31.19 | 49.78 |
| PAT | 3.54 | 19.09 |
| Overall gearing (times) | 2.10 | 1.85 |
| Interest coverage (times) | 1.70 | 3.02 |

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: NA

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.

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In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

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 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 | 83.12 | CARE BBB-; Stable | 1)CARE BBB-; Stable (05-Apr-18) | - | 1)CARE BBB-; Stable (17-Mar-17) | 1)CARE BBB- (30-Mar-16) |
| 2. | Fund-based - LT-Cash Credit | LT | 90.00 | CARE BBB-; Stable | 1)CARE BBB-; Stable (05-Apr-18) | - | 1)CARE BBB-; Stable (17-Mar-17) | 1)CARE BBB- (30-Mar-16) |
| 3. | Non-fund-based - ST-Forward Contract | ST | 1.37 | CARE A3 | 1)CARE A3 (05-Apr-18) | - | 1)CARE A3 (17-Mar-17) | 1)CARE A3 (30-Mar-16) |
| 4. | Fund-based - ST-Standby Line of Credit | ST | 8.30 | CARE A3 | 1)CARE A3 (05-Apr-18) | - | 1)CARE A3 (17-Mar-17) | 1)CARE A3 (30-Mar-16) |
| 5. | Non-fund-based - ST-Bank Guarantees | ST | 3.40 | CARE A3 | 1)CARE A3 (05-Apr-18) | - | 1)CARE A3 (17-Mar-17) | 1)CARE A3 (30-Mar-16) |
| 6. | Non-fund-based - ST-Letter of credit | ST | 10.00 | CARE A3 | 1)CARE A3 (05-Apr-18) | - | 1)CARE A3 (17-Mar-17) | 1)CARE A3 (30-Mar-16) |

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