Rating Rationale

Venkateshwara Spintex Private Limited

11 Feb 2019

Brickwork Ratings assigns 'BWR BB-' for the proposed bank loan facilities of Rs. 27.23 Crore of Venkateshwara Spintex Private Limited *['VSPL' or 'the company']*, Hyderabad, Telangana

Particulars

Facilities - Proposed	Amount (Rs. Crs)	Tenure	Ratings*
Fund Based Term Loan Cash Credit	 21.13 6.10	Long Term	**BWR BB-** *(Pronounced as BWR Double B Minus)* **Outlook: Stable**
Total	**Rs. 27.23 Crore (Rupees. Twenty Seven Crore Twenty Three Lakh Only)**		

*Please refer to BWR website www.brickworkratings.com/ for definition of the ratings

Ratings Assigned

Rationale/Description of Key Rating Drivers/Rating sensitivities:

Brickwork Ratings has essentially relied upon the projected financials upto FY22, publicly available information and information/clarifications provided by the company's management.

The rating draws strength from the experience of the management in cotton and textile industry and locational advantages of the spinning unit. However, the rating strengths are constrained by the exposure to risks related to timely completion of the proposed acquisition and upgradation of existing machinery including cost and time overruns, expected modest scale of operations and thin profitability and exposure to government regulatory changes. The rating is further constrained by the stiff competition in a highly fragmented industry, limited product differentiation with sales concentrated towards intensely competitive medium count segment and the susceptibility of earnings to volatility in cotton prices, given the limited pricing flexibility owing to the commoditised nature of the product.

Going forward, the company's ability to achieve financial closure for the acquisition of the spinning unit, ensure timely implementation of the upgradation of the facilities and commissioning of the unit within estimated costs, achieve the projected revenue and profitability and manage its working capital efficiently would be the key rating sensitivities.

Key Rating drivers

Credit Strengths:

- **Experienced Management:** The key management has over a decade of experience in the cotton and textile industry through 'Laxminarasimha Trading Company' *[a proprietorship concern of Shri. Vemula Narayana Venkat]*. The company benefits from the management's understanding of the dynamics of the industry and establish relationships with customers and suppliers.
- **Locational advantages:** The proposed spinning mill is located close to cotton growing districts of Telangana and in proximity to several ginning mills and weaving mills, hence reducing the logistic costs.

Credit Constraints:

- **Expected modest scale of operations in the initial phase**: The acquisition of the unit and commissioning of the upgraded plant is expected to be completed in March 2019. Full-fledged operations are expected to commence from April 2019. Timely commencement and stabilization of the cash flows will be a key rating sensitivity factor. Post commercial operations, revenue from FY20 is expected to be modest at around Rs. 48.00 crores over the medium term.
- **Susceptibility of profitability to volatility in cotton prices:** The cotton industry's profitability margins are highly correlated with fluctuations in raw material prices. Furthermore, the price of key raw material - cotton – are highly volatile. The company does not have any long-term contracts with suppliers with regard to either quantity or price. VSPL intends to procure cotton bales from ginning units in and around Rajanna Sircilla district, Telangana. Moreover, the cotton yarn industry is fragmented and there is significant competition among the players in the industry, as a result, their bargaining power is moderate. In addition, requirement of stocking cotton during the harvest season further exposes the profitability to fluctuation in cotton and yarn prices. This restricts the players from full passing on the input cost increases to customers or retaining any benefit of lower input cost. As a result, the profitability margins of the company are susceptible to the volatility in raw material prices.
- **Exposed to intense competition in cotton yarn industry:** The cotton yarn industry is highly commoditized. As a result, no single players can influence prices. The high degree of fragmentation and commoditized nature has caused intense competition among spinning units. Entry barriers in cotton business are low on account of limited capital and technology requirements and low differentiation in end product. This leads to intense competition and limits players' pricing power, resulting in low profitability. Since cotton is an agricultural commodity, its availability is limited and primarily depends on the monsoon.

Analytical Approach

For arriving at its ratings, Brickwork Ratings has applied its rating methodology as detailed in the Rating Criteria below (hyperlinks provided at the end of this rationale).

Rating Outlook: Stable

Brickwork Ratings believes that **Venkateshwara Spintex Private Limited (**'VSPL' or 'the company') business risk profile will be maintained over the medium term. The 'Stable' outlook indicates a low likelihood of rating change over the medium term. The outlook may be revised to Positive if the revenues and earnings exceed estimates and the financial profile of the company is strengthened. The outlook may be revised to 'Negative' in case of any significant time or cost overrun of the proposed project, any sharp deterioration in earnings or on account of any major debt-funded capital expenditure which could adversely impact the capital structure and coverage metrics.

About the Company

Venkateshwara Spintex Private Limited *['VSPL' or 'the company'],* a family owned business, was incorporated on 10th June 2016, by Shri. Vemula Narayana Venkat and Smt. C Revathi, at Hyderabad, Telangana. VSPL proposes to acquire a closed spinning unit *[closed since May 2016, on account of shortage of working capital and acute power]* from Sri Sai Raja Rajeswari Spinning Mills Private Limited located at Peddur village, Sircilla mandal, Rajanna Sircilla district, Telangana for an estimated cost of Rs. 34.00 crore, which includes technological upgradation of existing machinery. The spinning unit has an installed capacity of 23184 spindles and 240 automatic cone winding drums and would manufacture cotton carded hosiery yarns in the count range of 28s to 60s with an average count of 42s. The estimated cost of the proposed acquisition and upgradation has been assessed at Rs. 40.95 crore and is expected to be funded through promoters' contribution of Rs. 10.80 crore, unsecured debt of Rs. 9.02 crore and proposed term loan of Rs. 21.13 crore. Financial closure of the project is yet to achieved. The promoters have around Rs 3.89 in the form of equity and unsecured loans towards part funding the acquisition. VSPL intends to commence commercial operations from April 2019.

Financial Performance

Commercial operations are yet to commence. As per current estimates, FY20 would be the first year of operations.

Rating History for the last three years

Sl. No.	Facilities - Proposed	Current Rating (2019)			Rating History		
		Type	Amount (Rs. Cr)	Ratings	2018	2017	2016
1	Term Loans	Long Term	21.13	**BWR BB-** *(Pronounced as BWR Double B Minus)* (Outlook: Stable) *Assigned*	-	-	-
2	Cash credit		6.10				
Total			**Rs. 27.23 Crore (Rupees Twenty Seven Crore Twenty Three Lakh Only)**				

Status of non-cooperation with other CRA: Not Applicable

Any other information: Not Applicable

Hyperlink/Reference to applicable Criteria

- General Criteria
- Manufacturing Companies
- Approach to Financial Ratios

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For print and digital media

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Note on complexity levels of the rated instrument:

BWR complexity levels are meant for educating investors. The BWR complexity levels are available at www.brickworkratings.com/download/ComplexityLevels.pdf Investors queries can be sent to info@brickworkratings.com.

About Brickwork Ratings

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