

Press Release

16 March, 2017

Arnothaya Mills

Rating upgraded

Total Bank Facilities Rated *	Rs.24.18 Cr.
Long Term Rating	SMERA BB+/ Outlook: Stable
Short Term	SMERA A4+

Refer Annexure for details

Rating Rationale

SMERA has upgraded long-term rating of '**SMERA BB+**' (**read as SMERA BB plus**) and short term rating of '**SMERA A4+**' (**read as SMERA A four plus**) on the Rs. 24.18 crore bank facilities of Arnothaya Mills. The outlook is '**Stable**'.

Arnothaya Mills (AM) established in 1992 is a Coimbatore-based partnership firm engaged in the manufacture of grey cloth. The firm is led by Mr. Muthukumaraswamy, Partner who has more than three decades of experience in the textile industry. The firm procures yarn from the local market.

Key Rating Drivers

Strengths

- **Established track record of operations and experienced management**

AM established in 1992 is engaged in the manufacturing of grey cloth used in household textile products. Mr. Muthukumaraswamy, Partner has more than three decades of experience in the textile industry.

- **Moderate scale of operations**

The operating income increased to Rs. 165.74 cr in FY2015-16 from Rs. 157.45 cr in FY2014-15. The firm achieved revenue of ~Rs. 165.10 cr from April 2016 - January 2017. The orders as on February 2017 stood at Rs. 10.51 cr.

- **Moderate financial risk profile**

The financial risk profile of AM is moderate marked by net worth of Rs.37.70 cr and gearing (debt-equity ratio) of 0.62 times as on March 31, 2016 compared to net worth of Rs.34.07 cr and gearing of 0.44 times as on March 31, 2015. The interest coverage ratio (ICR) stood at 2.20 times in FY2016 from 1.97 times in FY2015.

- **Efficient working capital management**

AM has comfortable working capital management marked by Gross Current Assets Days of 95 in FY2016 compared to GCA days of 87 in FY2015.

Weaknesses

- **Susceptibility of operating margins**

The profitability of the firm is exposed to volatility in raw material prices. Cotton yarn, the major raw material is procured domestically and adverse movements in yarn prices will further impact profitability. The operating margins stood at 3.25 percent in FY2016 compared to 2.36 percent in FY2015. This was on account of decline in raw material prices.

- **Highly competitive and fragmented industry**

Coimbatore is one of the fastest growing Tier-II cities in India and a major textile manufacturing hub of Tamil Nadu. As a result, the firm derives locational advantage with regard to sourcing of raw material. However, the firm is exposed to intense market competition from organised and unorganised players.

Analytical Approach

SMERA has considered the standalone business and financial risk profiles of the firm.

Outlook: Stable

SMERA believes that the outlook on AM's rated facilities will remain 'Stable' over the medium term on account of the firm's long track record of operations and experienced management. The outlook may be revised to 'Positive' in case of improvement in the scale of operations, operating margins and if the firm has effective working capital management. Conversely, the outlook may be revised to 'Negative' in case of deterioration in the net cash accruals or if the firm has stretched working capital cycle.

About the Rated Entity - Key Financials

For FY2015-16, AM reported profit after tax (PAT) of Rs. 0.70 cr on operating income of Rs. 165.74 cr as compared with PAT of Rs. 0.62 cr on operating income of Rs. 157.45 cr in the previous year. The net worth stands negative at Rs. 37.70 cr as on March 31, 2016 against Rs. 34.07 cr in the previous year.

Status of non-cooperation with previous CRA (if applicable)

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.smerra.in/criteria-default.htm>
- Manufacturing Entities - <https://www.smerra.in/criteria-manufacturing.htm>
- Financial Ratios And Adjustments - <https://www.smerra.in/criteria-fin-ratios.htm>

Note on complexity levels of the rated instrument

<https://www.smerra.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
19-Oct-2015	Cash Credit	Long Term	INR 16	SMERA BB / Stable
	Term Loan	Long Term	INR 6.82	SMERA BB / Stable
	Proposed Cash Credit	Long Term	INR 1.29	SMERA BB / Stable
	Bank Guarantee	Short Term	INR 0.07	SMERA A4+

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	20.00	SMERA BB+ / Stable
Term loans	Not Applicable	Not Applicable	Not Applicable	4.11	SMERA BB+ / Stable
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	0.07	SMERA A4+

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