

Press Release

Arnothaya Mills

May 08, 2018



Rating Reaffirmed

Total Bank Facilities Rated*	Rs.39.88 Cr.
Long Term Rating	SMERA BB+/Stable (Reaffirmed)
Short Term Rating	SMERA A4+ (Reaffirmed)

* Refer Annexure for details

Rating Rationale

SMERA has reaffirmed the long-term ratings of '**SMERA BB+**' (read as SMERA BB plus) and the short term ratings at '**SMERA A4+**' (read as SMERA A four plus) to the Rs. 39.88 crore bank facilities of Arnothaya Mills (AM). The outlook is '**Stable**'.

The reaffirmation of the rating reflects sustenance of the business and financial risk profile in line with the previous years; however, on revenues and at profit-after-tax level, they are at about 10 per cent below the estimated levels. The revenues have improved marginally by about 5 per cent to about Rs.193.0 crores in FY2018 over FY2017 (refers to financial year April 1st to March 31st). Debt protection metrics of interest coverage ratio, net cash accruals to total debt (NCA/TD) and debt-to-equity are in line with the earlier estimate. SMERA believes that the same is expected to continue over the medium term despite proposed debt-funded capital expenditure (capex).

Arnothaya Mills (AM) established in 1992 is a Coimbatore based partnership firm engaged in the manufacturing of grey cloth. The firm is led by Muthukumaraswamy, partner who has more than three decades of experience in the textile industry. The firm procure yarn from local market and sells the manufactured grey fabric in the markets of Tirupur, Jaipur, and Ahmedabad among others.

Key rating drivers

Strengths

Established track record of operations and experienced management

AM has been operational since 1992, in manufacturing of grey cloth which finds its major end use in household textile products. Mr. Muthukumaraswamy, the managing partner of Arnothaya Mills has more than three decades of experience in the textile industry operations.

Improving revenues

AM's revenue profile has been improving consistently, though at a steady pace of about 5 per cent per annum since FY2015 (refers to financial year April 1st to March 31st). Its revenues in FY2018 have improved by about 13 per cent to Rs.193.0 crores on provisional basis from Rs.170.6 crs in FY2017, though the same is below the earlier estimate of about Rs.215.0 crores. AM's manufacturing facilities are highly utilized and constraining the revenue scalability; keeping in view, the promoters have taken up capex programme which is likely to support the revenues to grow to about Rs.240.0 crores over the medium term.

Moderate financial risk profile

AM's financial risk profile continues to be moderate over the past four years through FY2018 reflected by healthy gearing (debt-to-equity) and comfortable debt protection metrics. Its gearing is healthy of about 0.65

times and total outside liabilities to total net worth (TOLTNW) of 0.78 times as of March 31, 2018 on provisional basis. The gearing is in line with the earlier estimate. Despite the on-going debt-funded capex, the capital structure continues to be healthy at below 1.0 times over the medium term. Healthy capital structure is attributed to regular infusion of capital and minimal reliance on term debt for capex – in FY2017, Rs.5.54 crores have been infused for the capex done of about Rs.7.9 crs in FY2016. AM's net worth stands at about Rs.44.3 crs as of March 31, 2018 on provisional basis. SMERA believes that the financial risk profile of AM continues to be moderate over the medium term.

Weaknesses

Working capital intensive operations

AM's operations remained working capital intensive, as reflected in its high gross current assets (GCA) of 122 days as on March 31, 2017 compared to 95 days as on March 31, 2016 due to high inventory days. Inventory days stood at 90 as on March 31, 2017 as compared to 69 as on March 31, 2016. The company maintains high inventory levels to service its orders on time. Debtor days stood at 23 days as on March 31, 2017 compared to 26 days as on March 31, 2016. The company's credit terms with customers ranges from 7 to 60 days. The high GCA and seasonal availability of cotton resulted in high utilization of bank lines at about 98 per cent for the period April 2017 – March 2018 constraining the financial flexibility. SMERA believes that AM's operations being agri-related continues to be working capital intensive.

Profitability is susceptible to volatility in raw material prices

Operating profitability of AM remains low during the period under the study. AM's profitability is exposed to volatility in raw material prices. Major raw material is yarn which is procured domestically and AM has been maintaining historically about 70-90 days of its requirement. Any adverse movement of yarn prices is likely to have a bearing on the operating margins. SMERA believes that the profitability of the players are susceptible to volatility in yarn prices.

Outlook: Stable

SMERA believes the outlook on AM's rated facilities will remain 'Stable' over the medium term on account of the long track record of operations and experienced management. The outlook may be revised to 'Positive' in case of higher-than-expected growth in revenues, while improving its profitability and liquidity. Conversely, the outlook may be revised to 'Negative' in case of any stretch in its working capital management, or any significant delay in stabilization of operations from the on-going capex and lead to less-than-expected revenues and profitability.

About the rated entity Financials

	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	170.62	165.74	157.45
EBITDA	Rs. Cr.	6.20	5.38	3.71
PAT	Rs. Cr.	0.92	0.70	0.62
EBITDA Margin	(%)	3.63	3.25	2.36
PAT Margin	(%)	0.54	0.43	0.39
ROCE	(%)	5.81	5.73	5.82
Total Debt/Tangible Net Worth	Times	0.69	0.62	0.44
PBDIT/Interest	Times	2.08	2.20	1.97
Total Debt/PBDIT	Times	4.81	4.34	4.01
Gross Current Assets (Days)	Days	122	95	87

Any other information: Not Applicable

Applicable Criteria

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

Note on complexity levels of the rated instrument

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

Status of non-cooperation with previous CRA (if applicable): Not Applicable.

Rating History (Up to last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
16-Mar-2017	Cash Credit	Long Term	20.00	SMERA BB+/Stable (Upgraded)
	Term Loan	Long Term	4.11	SMERA BB+/Stable (Upgraded)
	Bank Guarantee	Short Term	0.07	SMERA A4+ (Reaffirmed)
19-Oct-2015	Cash Credit	Long Term	16.00	SMERA BB/Stable (Assigned)
	Term Loan	Long Term	6.82	SMERA BB/Stable (Assigned)
	Proposed Cash Credit	Long Term	1.29	SMERA BB/Stable (Assigned)
	Bank Guarantee	Short Term	0.07	SMERA A4+ (Assigned)

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	26.00	SMERA BB+/Stable (Reaffirmed)
Term Loan	Not Applicable	Not Applicable	Not Applicable	2.88	SMERA BB+/Stable (Reaffirmed)
Term Loan*	Not Applicable	Not Applicable	Not Applicable	11.00	SMERA BB+/Stable (Assigned)
Letter of credit	Not Applicable	Not Applicable	Not Applicable	(10.13)	SMERA A4+ (Assigned)

*FLC sublimit of Term Loan (Rs.10.13 cr Approx.)

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ABOUT SMERA

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